

CONFIDENTIAL EXPLANATORY MEMORANDUM

COMMON SHARES

OF

KARSCH CAPITAL, LTD.

(A CAYMAN ISLANDS EXEMPTED COMPANY)

December 2007

THIS CONFIDENTIAL EXPLANATORY MEMORANDUM (THE "MEMORANDUM") IS SUBMITTED TO YOU ON A CONFIDENTIAL BASIS SOLELY IN CONNECTION WITH YOUR CONSIDERATION OF AN INVESTMENT IN COMMON SHARES OF KARSCH CAPITAL, LTD., A CAYMAN ISLANDS EXEMPTED COMPANY. DUE TO THE CONFIDENTIAL NATURE OF THIS MEMORANDUM, ITS USE FOR ANY OTHER PURPOSE MIGHT INVOLVE LEGAL CONSEQUENCES. CONSEQUENTLY, THIS MEMORANDUM MAY NOT BE REPRODUCED IN WHOLE OR IN PART, AND MAY NOT BE DELIVERED TO ANY PERSON (OTHER THAN YOUR FINANCIAL ADVISOR) WITHOUT THE PRIOR WRITTEN CONSENT OF THE FUND'S DIRECTORS.

Memorandum Copy Number: _____

Offer for sale of ordinary shares, par value \$0.01 (U.S.) per share of Karsch Capital, Ltd., an exempted company organized under the laws of the Cayman Islands (the "Fund"). The minimum subscription is \$1,000,000 (U.S.) subject to increase or decrease at the discretion of the Fund, however, in no case may the minimum subscription be less than \$50,000 (U.S.).

Price: Initially offered at a fixed price of \$100 (U.S.) per Common Share (as defined below) during the initial offering period and thereafter at the Offering Price (as defined herein) per Common Share.

The Common Shares of the Fund are speculative securities intended for a limited number of experienced and sophisticated investors.

THIS MEMORANDUM HAS BEEN PREPARED IN CONNECTION WITH THE OFFER AND SALE OUTSIDE OF THE UNITED STATES, ITS TERRITORIES OR POSSESSIONS OF COMMON SHARES OF KARSCH CAPITAL, LTD. (THE "FUND") TO PERSONS WHO ARE NOT MEMBERS OF THE PUBLIC IN THE CAYMAN ISLANDS (WHICH WILL NOT INCLUDE AN EXEMPTED OR ORDINARY NON-RESIDENT COMPANY IN THE CAYMAN ISLANDS) AND WHO ARE NEITHER CITIZENS NOR RESIDENTS OF THE UNITED STATES OF AMERICA AND WITHIN THE UNITED STATES TO A LIMITED NUMBER OF UNITED STATES INVESTORS CONSISTING PRIMARILY OF TAX-EXEMPT ENTITIES. THIS MEMORANDUM MAY NOT BE REPRODUCED.

NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AUTHORITY WITH RESPECT TO THIS OFFERING. THE COMMON SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY TO ANY UNITED STATES CITIZEN OR RESIDENT OR TO ANY CORPORATION, FUND, TRUST OR OTHER ENTITY CHARTERED OR ORGANIZED UNDER THE LAWS OF ANY JURISDICTION IN THE UNITED STATES OF AMERICA, ITS TERRITORIES OR POSSESSIONS OTHER THAN A LIMITED NUMBER OF UNITED STATES TAX-EXEMPT INVESTORS.

THE DISTRIBUTION OF THIS MEMORANDUM AND THE OFFER AND SALE OF THE COMMON SHARES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY COMMON SHARES IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN ANY JURISDICTION. NO ACTION HAS BEEN OR WILL BE TAKEN TO PERMIT A PUBLIC OFFERING IN ANY JURISDICTION WHERE ACTION WOULD BE REQUIRED FOR THAT PURPOSE. ACCORDINGLY, THE COMMON SHARES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND THIS MEMORANDUM MAY NOT BE DISTRIBUTED, IN ANY JURISDICTION, EXCEPT IN ACCORDANCE WITH THE LEGAL REQUIREMENTS APPLICABLE IN SUCH JURISDICTION. PURCHASERS SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS WITHIN THEIR OWN COUNTRIES FOR THE PURCHASE OF COMMON SHARES AND TO ANY TAXATION OR EXCHANGE CONTROL LEGISLATION APPLICABLE TO THEM.

AN INVESTMENT IN THE FUND MAY BE DEEMED SPECULATIVE AND IS NOT INTENDED AS A COMPLETE INVESTMENT PROGRAM. IT IS DESIGNED ONLY FOR EXPERIENCED AND SOPHISTICATED PERSONS WHO ARE ABLE TO BEAR THE RISK OF THE SUBSTANTIAL IMPAIRMENT OR LOSS OF THEIR INVESTMENT IN THE FUND.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS LEGAL, INVESTMENT OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT HIS PERSONAL COUNSEL, ACCOUNTANTS AND OTHER ADVISERS AS TO THE LEGAL, TAX, ECONOMIC AND RELATED ASPECTS OF THE INVESTMENT DESCRIBED HEREIN AND AS TO ITS SUITABILITY FOR SUCH INVESTOR.

THE FUND IS A REGULATED MUTUAL FUND FOR THE PURPOSES OF THE MUTUAL FUNDS LAW (REVISED) OF THE CAYMAN ISLANDS. THE FUND IS REGISTERED WITH THE MONETARY

AUTHORITY OF THE CAYMAN ISLANDS PURSUANT TO SECTION 4(3) OF THAT LAW AND THE PRESCRIBED DETAILS IN RESPECT OF, AND A COPY OF THIS MEMORANDUM HAVE BEEN FILED WITH THE MONETARY AUTHORITY. SUCH REGISTRATION DOES NOT IMPLY THAT THE MONETARY AUTHORITY OF THE CAYMAN ISLANDS OR ANY OTHER REGULATORY AUTHORITY IN THE CAYMAN ISLANDS HAS APPROVED THIS MEMORANDUM OR THE OFFERING OF COMMON SHARES HEREUNDER.

FOR A SUMMARY OF THE CONTINUING REGULATORY OBLIGATIONS OF THE FUND AND A DESCRIPTION OF THE REGULATORY POWERS OF THE CAYMAN ISLANDS MONETARY AUTHORITY, SEE SECTION 14 OF THIS MEMORANDUM.

THE COMMON SHARES ARE OFFERED ONLY ON THE BASIS OF THE INFORMATION CONTAINED IN THIS MEMORANDUM. ANY FURTHER INFORMATION OR REPRESENTATIONS GIVEN OR MADE BY ANY DEALER, BROKER OR OTHER PERSON SHOULD BE DISREGARDED AND ACCORDINGLY SHOULD NOT BE RELIED UPON. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OF THE COMMON SHARES OTHER THAN THOSE CONTAINED IN THIS MEMORANDUM OR IN OTHER DOCUMENTS DISTRIBUTED BY THE FUND AND THE INVESTMENT MANAGER AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED ON AS HAVING BEEN AUTHORIZED BY THE FUND, THE DIRECTORS, THE INVESTMENT MANAGER, THE CUSTODIAN OR THE ADMINISTRATOR. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR THE ISSUE OF COMMON SHARES SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION OR CONSTITUTE ANY REPRESENTATION THAT THE AFFAIRS OF THE FUND HAVE NOT CHANGED SINCE THE DATE HEREOF.

THE DIRECTORS OF THE FUND WHOSE NAMES APPEAR IN THIS MEMORANDUM ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS DOCUMENT. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS (WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE) THE INFORMATION CONTAINED IN THIS DOCUMENT IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

EXEMPTION FROM CPO REGISTRATION

THE INVESTMENT MANAGER HAS FILED A CLAIM OF EXEMPTION FROM REGISTRATION AS A COMMODITY POOL OPERATOR ("CPO") WITH THE UNITED STATES COMMODITY FUTURES TRADING COMMISSION ("CFTC") IN CONNECTION WITH PRIVATE INVESTMENT FUNDS WHOSE NATURAL PERSON PARTICIPANTS ARE EITHER "QUALIFIED PURCHASERS", AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER (THE "1940 ACT") OR NON-U.S. PERSONS, AND WHOSE NON-NATURAL PERSON PARTICIPANTS ARE "ACCREDITED INVESTORS," AS DEFINED IN REGULATION D UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR QUALIFIED ELIGIBLE PERSONS, AS DEFINED IN RULE 4.7 UNDER THE COMMODITY EXCHANGE ACT.

UNLIKE A REGISTERED CPO, THE INVESTMENT MANAGER IS NOT REQUIRED TO DELIVER A DISCLOSURE DOCUMENT AND A CERTIFIED ANNUAL REPORT TO PARTICIPANTS IN THE FUND. THE CFTC HAS NOT REVIEWED OR APPROVED THIS OFFERING OR ANY DISCLOSURE DOCUMENT FOR THE FUND.

SPECIAL NOTICE TO FLORIDA INVESTORS, U.S.A.:

UPON THE ACCEPTANCE OF FIVE (5) OR MORE FLORIDA INVESTORS, AND IF THE FLORIDA INVESTOR IS NOT A BANK, A TRUST COMPANY, A SAVINGS INSTITUTION, AN INSURANCE COMPANY, A DEALER, AN INVESTMENT COMPANY AS DEFINED IN THE 1940 ACT, A PENSION OR PROFIT-SHARING TRUST, OR A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933), THE FLORIDA INVESTOR ACKNOWLEDGES THAT ANY SALE OF AN INTEREST TO THE FLORIDA INVESTOR IS VOIDABLE BY THE FLORIDA

INVESTOR EITHER WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY THE FLORIDA INVESTOR TO THE ISSUER, OR AN AGENT OF THE ISSUER, OR WITHIN THREE DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO THE FLORIDA INVESTOR, WHICHEVER OCCURS LATER.

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SUMMARY OF TERMS

The following is a summary of the Confidential Explanatory Memorandum (the "Memorandum") and other documents relating to the Fund and is qualified in its entirety by reference to the full terms of the Memorandum and such other documents. The Memorandum and related agreements should be reviewed carefully for more information with respect to the Fund.

The Fund

Karsch Capital, Ltd., a Cayman Islands exempted company (the "Fund"), will offer its Common Shares (as defined below) to persons who are neither citizens nor residents of the United States and to a limited number of United States investors, consisting primarily of pension and profit sharing trusts, charities and other tax-exempt entities. Common Shares will not be offered to persons who are members of the public in the Cayman Islands (which will not include an exempted or ordinary non-resident company in the Cayman Islands). The Fund is formed for the purpose of investing its assets and liabilities in accordance with the investment program set forth in this Memorandum.

Investment Objective

The investment objective of the Fund is to achieve capital appreciation while minimizing risk by investing (on the long and short sides) primarily in equities and equity-related instruments. The primary geographic focus will be the United States and, to a lesser extent, other developed economies, while the secondary geographic focus will be in developing countries. There can be no assurances that the Fund will achieve its investment objective.

The Investment Manager

Karsch Capital Management, LP, a Delaware limited partnership, serves as the investment manager (the "Investment Manager") to the Fund. The Investment Manager is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"). Mr. Michael A. Karsch controls the Investment Manager and will serve as the portfolio manager for the Fund. From 1998 to 2000, Mr. Karsch worked at Soros Fund Management LLC and was responsible for investments in consumer services and special situations. In November 1999, he was named a Managing Director at Soros. From 1995 to 1998, he was one of four investment professionals at Chieftain Capital Management. Mr. Karsch has invested the large majority of his liquid net worth with the Fund's affiliates, including Karsch Capital I, LP (which is intended to be managed substantially pari passu with the Fund).

Administrator

The Fund has entered into an administration agreement with Goldman Sachs Administration Services, Gardenia Court, Suite 3307, 45 Market Street, Camana Bay, PO Box 896, Grand Cayman, KY1-1103, Cayman Islands (the "Administrator"). The Fund pays the Administrator a fee based on its standard schedule of fees charged by the Administrator for similar services as provided for in the Administration Agreement.

Incentive Fee

The Investment Manager receives an annual incentive fee (the "Incentive Fee") equal to 20% of the net profits (including unrealized gains and losses), if any, allocable to each Common Share, subject to a loss carryforward provision. The Investment Manager may, however, elect to defer receipt of all or a part of the Incentive Fee. The Directors may, in their sole and absolute discretion, but with the consent of the Investment Manager, waive the payment of all or part of the Incentive Fee with respect to any holder of Common Shares (each, a "Shareholder") for any period the Directors determine is appropriate, including with respect to Shareholders who are employees of the Investment Manager.

Management Fee

The Investment Manager is paid a quarterly management fee (the "Management Fee") computed at the quarterly rate of 0.375% of the net asset value of the Fund (adjusted for subscriptions made during the quarter) (1.5% per annum). The Management Fee is paid in advance and is calculated based on the net asset value of the Fund as of the first day of such calendar quarter. The Management Fee will be prorated for any period that is less than a full calendar quarter. The Investment Manager may, however, elect to defer receipt of all or a part of the Management Fee. The Management Fee is available to pay or cause to pay the overhead expenses described below (which expenses are the obligation of the Investment Manager). The Directors may, in their sole and absolute discretion, but with the consent of the Investment Manager, waive the payment of all or part of the Management Fee with respect to any Shareholder for any period the Directors determine is appropriate, including with respect to any Shareholders who are employees of the Investment Manager.

Expenses

The Investment Manager renders the services set forth in the Investment Management Agreement between the Investment Manager and the Fund, and is responsible for the payment of all overhead expenses associated with rendering such services, including office rent and related utilities; furniture and fixtures; computer hardware; stationery; secretarial/administrative services; salaries; entertainment expenses; and employee insurance and payroll taxes. The Fund pays all other expenses, including the fees paid to the Investment Manager and the Administrator; accounting, legal, audit, tax preparation and other professional expenses; organizational expenses; quotation services; research fees and expenses (including research-related travel fees and expenses); investment expenses such as commissions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees, fees and expenses of investment vehicles in which the Fund may invest; and any other expenses reasonably related to the purchase, sale or transmittal of Fund assets; the Investment Manager's registration and compliance expenses incurred in connection with the Investment Manager's registration under the Advisers Act and other expenses related to the Fund, including extraordinary expenses. The Fund's start-up and

organizational expenses have been amortized over a period of five years from the commencement of the Fund's operations.

Risk Factors

An investment in the Fund involves significant risks and is suitable only for those persons who can bear the economic risk of the loss of their investment and who have limited need for liquidity in their investment. There can be no assurance that the Fund will achieve its investment objective. An investment in the Fund carries with it the inherent risks associated with investments in equity and equity-related securities, as well as additional risks including, without limitation, those associated with options, leverage, illiquid investments and short sales. See "Risk Factors" below. Each prospective investor should carefully review this Memorandum and the documents referred to herein before deciding to invest in the Fund.

The Offering

Common Shares are currently offered at the Offering Price (as defined herein) per Common Share and subscriptions are generally permitted monthly on the first business day of each calendar month. For purposes of this Memorandum, "business day" shall mean any day that banks are open for business in New York, USA and the Cayman Islands. Common Shares of the Fund are speculative securities intended for persons who are experienced and sophisticated investors. The minimum investment in the Fund is \$1,000,000 (U.S.); however, in no case may the minimum subscription be less than \$50,000 (U.S.).

Common Shares may be designated as Class A Shares or Class B Shares. Class A Shares and Class B Shares are identical except as regards to participation in "new issues." Class A Shares may only be purchased by investors who do not fall within the proscription of Rule 2790 of the Financial Industry Regulatory Authority, Inc. ("FINRA") relating to "new issues" and Class B Shares may only be purchased by investors who fall within such proscription.

The Class A Shares and the Class B Shares are collectively referred to herein as "Common Shares."

The Fund may issue additional Classes of Shares from time to time.

Redemptions

Any holder of Common Shares has the right, in accordance with and subject to the applicable provisions of the Articles of Association of the Fund and the laws of the Cayman Islands, to have all or a portion of his Common Shares redeemed as of the last business day of each calendar month pursuant to written notice which must be received by the Fund at least 45 calendar days prior to such redemption date; provided, however, that any Shareholder who redeems Common Shares prior to the first anniversary of the purchase of such Common Shares may be assessed a redemption fee of up to (i) 2.5% on such Common Shares purchased prior to May 1,

2004, and (ii) 3% on such Common Shares purchased on or after May 1, 2004, payable to the Fund.

In addition, each Shareholder will be permitted to redeem completely from the Fund at any time if Mr. Karsch dies or becomes disabled or incapacitated (so that he is unable to perform his duties as portfolio manager of the Investment Manager for at least 90 consecutive calendar days). Such special redemption right is exercisable by delivery of written notice to the Fund within 30 calendar days after the Shareholders are sent notice of the events in the preceding sentence. In the case of such a redemption, no redemption fee will be assessed.

Under certain circumstances, the Fund may require the redemption of all or any part of a Shareholder's Common Shares. See "Redemptions – Compulsory Redemption."

Valuation

Fund investments will be valued in accordance with the relevant provisions of Section 9 of this Memorandum.

Placement Agents

The Fund may, with the Investment Manager's consent, pay and/or allocate a portion of the Investment Manager's compensation to persons (whether or not affiliated with the Fund and/or the Investment Manager) who are instrumental in the sale of Common Shares. Any such fees or allocations will not be payable by or chargeable to the Fund, any Shareholder or prospective Shareholder.

Restrictions on Transfer

A Shareholder may not pledge, assign, sell, exchange or transfer its interest except with the prior written consent of the Fund's directors ("Directors").

Reports

Each investor receives unaudited performance information of the Fund at least quarterly, and receives audited year-end financial statements annually. In addition, each Shareholder may receive other periodic reports concerning material portfolio developments, including monthly and weekly estimated net asset value reports, at the discretion of the Investment Manager.

Board of Directors

The Board of Directors of the Fund consists of Michael A. Karsch, J. Dennis Hunter and Jane E. Fleming. The Fund may compensate Directors (other than any Directors that are affiliated with the Investment Manager) with respect to services rendered in that capacity.

ERISA Matters

An authorized fiduciary of an employee benefit plan proposing to invest in the Fund should consider whether that investment is consistent with the terms of the plan's governing documents and applicable law. As discussed in greater detail below, the Fund intends to restrict investments in Common Shares by "benefit plan investors," as that term is defined in regulations issued by the U.S. Department of Labor ("DOL") under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), so that such benefit plan investors will not hold 25% or more of the value of any class of

Common Shares. Accordingly, it is not expected that the assets of the Fund will be treated as "plan assets" for purposes of the fiduciary responsibility standards and prohibited transaction restrictions of ERISA or the parallel prohibited transaction excise tax provisions of Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"). See "ERISA Considerations."

Tax Status

The Fund is not subject to any income, withholding or capital gains taxes in the Cayman Islands. The Fund is not expected to be subject to any United States income taxes (other than United States withholding taxes on dividends and certain interest income derived from United States sources). Shareholders of the Fund who are not otherwise subject to United States taxation by reason of their residence, nationality or other particular circumstances should not become subject to any such taxation by reason of the ownership, transfer or redemption of Common Shares. Shareholders should consult their own advisors as to the tax consequences to them of an investment in the Fund.

Purchase of Shares

Any investor desiring to subscribe for Common Shares of the Fund will be asked to complete and sign two copies of a "Subscription Agreement and Revocable Proxy," in the form furnished by the Fund, offering in the Subscription Agreement to purchase a specified dollar amount of Common Shares, and send a copy thereof by facsimile and two such signed copies by mail, to: Karsch Capital, Ltd., c/o Goldman Sachs Administration Services, Gardenia Court, Suite 3307, 45 Market Street, Camana Bay, PO Box 896, Grand Cayman, KY1-1103, Cayman Islands, facsimile: (345) 949-6773, followed by a photocopy thereof to Karsch Capital Management, LP, 110 East 59th Street, 22nd Floor, New York, New York 10022, U.S.A. Payment in the amount of the subscription in United States dollars will be made in accordance with the terms of the "Subscription Agreement and Revocable Proxy."

Cayman Islands Counsel

Ogier

U.S. Counsel

Kirkpatrick & Lockhart Preston Gates Ellis LLP

Auditors

McGladrey & Pullen, Cayman

Additional Information

Each prospective investor is invited to meet with representatives of the Fund and the Investment Manager to discuss with them, and to ask questions of and receive answers from them, concerning the terms and conditions of this offering of Common Shares, and to obtain any additional information, to the extent that any of those persons possesses that information or can acquire it without unreasonable effort or expense, necessary to verify the information contained herein.

DIRECTORY

Principal and Registered Office:

Karsch Capital, Ltd.
c/o Goldman Sachs Administration Services
Gardenia Court, Suite 3307
45 Market Street, Camana Bay
PO Box 896
Grand Cayman KY1-1103
Cayman Islands

Investment Manager:

Karsch Capital Management, LP
110 East 59th Street
22nd Floor
New York, New York 10022
U.S.A.

Administrator:

Goldman Sachs Administration Services
Gardenia Court, Suite 3307
45 Market Street, Camana Bay
PO Box 896
Grand Cayman KY1-1103
Cayman Islands

Auditors:

McGladrey & Pullen, Cayman
2nd Floor Harbour Place
Georgetown
P.O. Box 10311
Grand Cayman KY1-1003
Cayman Islands

Custodians/Prime Brokers:

Goldman, Sachs & Co.
One New York Plaza
New York, New York 10004
U.S.A.

Morgan Stanley
1585 Broadway
New York, NY 10036
U.S.A.

United States Counsel:

Kirkpatrick & Lockhart Preston Gates Ellis LLP
599 Lexington Avenue
New York, New York 10022
U.S.A.

Cayman Islands Counsel:

Ogier
South Church Street
Queensgate House
P.O. Box 1234
Grand Cayman KY1-1108
Cayman Islands

Written inquiries relating to the Fund should be addressed to Karsch Capital, Ltd. at its principal office set forth above.

1. **THE FUND**

Karsch Capital, Ltd. (the "Fund") is an exempted company formed under the laws of the Cayman Islands for the purpose of investing its assets and liabilities in accordance with the investment program set forth in this Memorandum and as permitted by the terms of the Memorandum and Articles of Association of the Fund. Karsch Capital Management, LP, a Delaware limited partnership, is the investment manager (the "Investment Manager") of the Fund. The Investment Manager is registered as an investment adviser under the Advisers Act. The controlling person and portfolio manager of the Investment Manager is Michael A. Karsch.

An investment in the Fund may be deemed speculative and is not intended as a complete investment program. It is designed only for experienced and sophisticated persons who are able to bear the risk of the substantial impairment or loss of their investment in the Fund. Common Shares of the Fund will be offered to persons who are neither citizens nor residents of the United States and to a limited number of United States investors, consisting primarily of pension and profit sharing trusts, charities and other tax-exempt entities. Common Shares will not be offered to persons who are members of the public in the Cayman Islands (which will not include an exempted or ordinary non-resident company in the Cayman Islands).

2. **INVESTMENT PROGRAM**

Investment Objective

The investment objective of the Fund is to achieve capital appreciation while minimizing risk by investing (on the long and short sides) primarily in equities and equity-related instruments. The Investment Manager may expand the Fund's investment focus to cover other investment opportunities as they arise. The primary geographic focus will be the United States and, to a lesser extent, other developed economies, while the secondary geographic focus will be in developing countries.

Investment Strategy

The Investment Manager believes that there are three primary drivers of stock prices: (i) the direction of the overall stock market; (ii) both the short-term and the long-term potential of the industry in which a specific company operates; and (iii) the current performance and future prospects of a specific company itself.

The Investment Manager will generally seek to find companies on the long side that it believes have strong market positions in vibrant industries. However, in certain cases, the Investment Manager may take long positions in securities in an industry that appears to be performing below average if the Investment Manager believes that the industry is improving to such an extent that its near-term potential counters an otherwise mixed view on the industry. Additionally, the Investment Manager may take long positions in an industry that is perceived to be underperforming when valuations of companies are so compelling that they are able to counter the Investment Manager's negative, neutral or mixed view. Finally, the Investment Manager may also invest on the long side in sub-par companies that operate in an industry that the Investment Manager considers vibrant enough to offset the negative characteristics of the company.

The Investment Manager will generally seek to find companies on the short side that it believes the market is overly optimistic about and for which there is an identifiable catalyst which may prompt the market to reconsider the company's valuation. However, in certain cases and in the absence of more obvious catalysts, the Investment Manager may still take short positions in companies that display certain characteristics, including, but not limited to: (i) operations in an industry with poor or deteriorating conditions; (ii) excessive valuation; (iii) poor or deteriorating free cash flow and/or return on capital; and (iv) poor or weakening balance sheet.

Intense research is an important part of the investment strategy. Research will focus on industry and company specific analysis. This will be accomplished by examining corporate filings (i.e., S1, 8K, 10K, 10Q, 13D, proxy statements), meeting with management, speaking with industry contacts, attending industry conventions and investor conferences, evaluating competitors and channel checks, reviewing media and industry publications, relying on industry experts, and studying technical charts. Sell-side research and the Investment Manager's network of other investment professionals will be utilized to the extent that it will help test the Investment Manager's independent findings.

A range of analytical and financial measurements will be used to help gauge a company's valuation. A key calculation may be discounted cash flow analysis, because it helps understand a company by taking into account its expected growth rate and ability to generate free cash flow; however, in certain cases, other financial measurements (e.g., P/E ratio, enterprise value as a multiple of EBITDA and free cash multiple) may be used as a proxy. Another important calculation is return on invested capital because it helps to understand the quality of a company's business and the effectiveness of its management. The balance sheet will be examined to evaluate a company's cash conversion cycle (i.e., days inventory, receivables and payables) and its capital structure. Other measurements that will be utilized include: sum of the parts, book value and industry specific matrices.

Risk management will be a significant consideration in making investment decisions. It will be managed through the use of options, ETFs, swaps, including basket swaps and credit default swaps, pair trades, stop losses and position limits. Specific issues include: drawdown, leverage, market conditions, and market exposure and portfolio diversification.

While the Investment Manager does not consider itself a "market timer", the Fund's net exposure has ranged between approximately 75% net long to approximately 15% net short since inception, and there may be periods of time when the Investment Manager will manage the Fund's portfolio to a specific net exposure.

General

The Investment Manager intends to pursue the investment objective described above and will generally follow the outlined investment strategies as long as such strategies are in accordance with the Fund's investment approaches and may also formulate new approaches to carry out the overall objective of the Fund (i.e., the achievement of capital appreciation while minimizing risk by investing (on the long and short sides) in equities and equity-related instruments).

While it is anticipated that the Fund will invest primarily in equity securities and equity-related instruments, the Fund has broad and flexible investment authority. Accordingly, the Fund's investments may at any time include U.S. or foreign, long or short positions in publicly traded or privately issued or negotiated common stocks, preferred stocks, stock warrants and rights, corporate and U.S. government debt, bonds, notes or other debentures or debt participations, convertible securities, fixed income securities, trade claims, swaps, including total return swaps, options (purchased or written), futures contracts, commodities, forward contracts and other derivative instruments, partnership interests and other securities or financial instruments including those of investment companies. The Fund may also invest in new issues of securities ("new issues"), provided that the Fund first complies with all of the rules and regulations pertaining to such investments, including the Conduct Rules of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Finally, the Fund may utilize leverage, generally within the parameters of Regulation T of the Federal Reserve's margin rules (i.e., 50%), to enhance returns.

The Fund may also, from time to time, invest in private or restricted securities or investments (as determined by the Investment Manager in its sole discretion), but in no event shall more than 3% of the Fund's total net asset value (computed at the time of investment) be invested in such private or restricted securities or investments.

THE FUND MAY BE DEEMED TO BE A HIGHLY SPECULATIVE INVESTMENT AND IS NOT INTENDED AS A COMPLETE INVESTMENT PROGRAM. IT IS DESIGNED ONLY FOR

SOPHISTICATED PERSONS WHO CAN BEAR THE ECONOMIC RISK OF THE LOSS OF THEIR INVESTMENT IN THE FUND AND WHO HAVE LIMITED NEED FOR LIQUIDITY. THERE CAN BE NO ASSURANCES THAT THE FUND WILL ACHIEVE ITS INVESTMENT OBJECTIVE.

3. **MANAGEMENT**

The Investment Manager of the Fund is Karsch Capital Management, LP, a limited partnership formed under the laws of the State of Delaware. The Investment Manager is registered as an investment adviser under the Advisers Act. The Investment Manager will be responsible for all decisions concerning the investments of the Fund. The general partner of the Investment Manager is Karsch Management GP, LLC and the managing member of such entity is Michael A. Karsch, who, as portfolio manager, is responsible for making investment decisions on behalf of the Investment Manager. The Investment Manager also serves as (i) the management company of Karsch Capital I, LP, Karsch Capital II, LP and KCM Alpha Only Fund, LP, U.S. limited partnerships (collectively, "U.S. funds"), (ii) the investment manager of Karsch Capital II, Ltd. and KCM Alpha Only Fund, Ltd., Cayman Islands exempted companies, and (iii) the investment manager to certain managed accounts. Additionally, the Investment Manager is affiliated with the U.S. funds' general partner, Karsch Associates, LLC. Set forth below are the biographies of Michael A. Karsch and certain other key personnel of the Investment Manager.

Michael A. Karsch

Mr. Karsch is the managing member of the general partner of the Investment Manager. Mr. Karsch founded the Investment Manager in July 2000. Prior to founding the Investment Manager, Mr. Karsch worked at Soros Fund Management LLC as a Managing Director, where Mr. Karsch was responsible for investments in consumer services and special situations for the Quantum Fund. From 1995 to 1998, Mr. Karsch was one of four investment professionals at Chieftain Capital Management. Prior to Chieftain Capital, he was an investment banking analyst at Wasserstein Perella & Co. from 1991 to 1993. Mr. Karsch graduated *Phi Beta Kappa* with a B.A. from Tufts University in 1990. He obtained his Master's of Arts in Law and Diplomacy from Fletcher School of Law and Diplomacy in 1991. Mr. Karsch obtained his M.B.A. from Harvard Business School in 1995.

Aaron Cowen

Mr. Cowen is a Managing Director for the Investment Manager. Mr. Cowen joined the Investment Manager in January 2002 and heads the Value Group. Mr. Cowen has direct investment experience in equities and debt on both the buy and sell sides. His buy-side experience includes several years at two hedge funds, the Baupost Group and Paloma Partners. Mr. Cowen started his career at Lehman Brothers as a distressed and high yield debt analyst focusing mostly on proprietary investments. Mr. Cowen graduated *Summa Cum Laude* with a B.S. in Engineering and a B.S. in Economics from the University of Pennsylvania in 1994. Mr. Cowen obtained his M.B.A. from MIT Sloan School of Management in 2002.

Ravee Mehta

Mr. Mehta is a Managing Director for the Investment Manager. Mr. Mehta joined the Investment Manager in October 2002. Prior to joining the Investment Manager he was employed at Soros Fund Management LLC. Mr. Mehta was responsible for evaluating long/short investment opportunities within equities in the Technology and Telecom sectors globally. From 1999 to June 2001, Mr. Mehta worked at Soros Private Equity Partners. Mr. Mehta graduated *Summa Cum Laude* with a B.S. in Economics and a B.S.E. in Systems Engineering from the University of Pennsylvania in 1997.

Ryan Renteria

Mr. Renteria is a Managing Director for the Investment Manager. Mr. Renteria joined the Investment Manager in August 2005 and heads the Retail Group. Mr. Renteria was previously a Senior

Analyst and Portfolio Manager at Balyasny Asset Management, and started his career on the sell-side as a Research Analyst at Goldman Sachs; he focused on the Hardlines Retail sector at both firms. Mr. Renteria has a B.A. in Economics from Stanford University in 2001.

Rick Singh

Mr. Singh is a Managing Director for the Investment Manager. Mr. Singh was the first analyst to join the Investment Manager in 2000 and spent over 5 years with the Investment Manager focusing on business services and consumer (non-retail) stocks. Mr. Singh spent 2006 as a Partner at Standard Pacific Capital, LLC and rejoined the Investment Manager in 2007. Prior to joining the Investment Manager in 2000, he was employed at Salomon Smith Barney as a financial analyst in the Mergers and Acquisitions Group. Mr. Singh graduated with distinction from the University of Virginia in 1998 with a B.S. in Finance and Marketing.

John Larre

Mr. Larre is the Chief Financial Officer of the Investment Manager. Mr. Larre joined the Investment Manager in July 2000. Prior to joining the Investment Manager, he was employed as Chief Financial Officer at Lawhill Capital Partners LLC, a start-up fund specializing in cyclical and commodity related equities. Mr. Larre was responsible for all finance and fund accounting and the development of the entire office infrastructure. From 1993 to 1996, Mr. Larre was a Manager in the Controllers Department at Morgan Stanley Dean Witter supporting the Securities Lending and Prime Brokerage areas. Mr. Larre began his career in public accounting at KPMG from 1991 to 1993, and earned his CPA. Mr. Larre obtained his B.A. in accounting from Villanova University in 1991.

Brian Holmes

Mr. Holmes is the Chief Compliance Officer of the Investment Manager. Mr. Holmes joined the Investment Manager in July of 2005. Prior to joining the Investment Manager, he was employed at UBS Financial Services, Inc. as Corporate Vice President, Assistant Director of Compliance. Mr. Holmes was responsible for compliance issues relating to investment advisory products and services offered by UBS. Mr. Holmes began his career in compliance in 1997 at DLJdirect, Inc., a subsidiary of Donaldson, Lufkin and Jenrette Securities Corporation. Mr. Holmes is designated as a Certified Regulatory and Compliance Professional (CRCP) by the FINRA Institute and the Wharton School of Business and is designated as an Investment Adviser Certified Compliance Professional (IACCP) by the Investment Adviser Association and National Regulatory Services. Mr. Holmes obtained his B.S. in Finance from Manhattan College in 1995.

The Investment Manager will use its best efforts in connection with the purposes and objectives of the Fund and will devote as much of its time and effort to the affairs of the Fund as may, in its judgment, be necessary to accomplish the purposes of the Fund. The Investment Management Agreement specifically provides that the Investment Manager (or any of its principals, officers, employees and affiliates) may conduct any other business including any business within the securities industry whether or not such business is consistent with the business of the Fund. Without limiting the generality of the foregoing, the Investment Manager (or any of its principals, officers, employees and affiliates) may act as investment adviser or investment manager for others, may manage funds or capital for others, and may serve as an officer, manager, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms. In this regard, the funds currently managed by the Investment Manager, with the exception of Karsch Capital I, LP, Karsch Capital II, LP and Karsch Capital II, Ltd. (which are intended to be managed substantially *pari passu* with the Fund), have somewhat similar but not identical investment programs and methods of operation to those of the Fund. In addition, other entities or accounts may have investment objectives or may implement investment strategies similar to or different from those of the Fund. The Investment Manager and its affiliates may also, through other investments, including these or other investment funds, have interests in the securities in which the Fund invests as well as interests in investments in which the Fund does not invest. The Investment Manager and its affiliates may give advice or take action with respect to such funds, other entities or accounts that

differs from the advice given with respect to the Fund. It is also possible that the same investment positions held by the Fund and by the other clients and accounts will not be liquidated at the same time or at the same prices.

4. **INVESTMENT MANAGEMENT AGREEMENT**

Under the Investment Management Agreement between the Investment Manager and the Fund (the "Investment Management Agreement"), the Investment Manager invests and reinvests the assets of the Fund in accordance with the objectives and policies of the Fund set forth above. Under the terms of the Investment Management Agreement, the Fund pays to the Investment Manager, for its services as an investment manager, a quarterly "Management Fee" and an annual "Incentive Fee" as described below.

Management Fee

The Management Fee for any calendar quarter is an amount equal to 0.375% of the net asset value of the Fund (adjusted for subscriptions made during the quarter) (1.5% per annum). The Management Fee will be paid in advance in U.S. dollars as of the first day of each calendar quarter unless the Investment Manager elects to defer receipt of the Management Fee as further described below. The Management Fee will be deducted in computing the net profit or net loss of the Fund. In the event that the Investment Manager is not acting as Investment Manager for an entire calendar quarter, the Management Fee payable by the Fund for such quarter will be prorated to reflect the portion of such quarter in which the Investment Manager is acting as such under the Investment Management Agreement. The Directors may, in their sole and absolute discretion, but with the consent of the Investment Manager, waive the payment of all or part of the Management Fee with respect to any Shareholder for any period the Directors determine is appropriate, including with respect to Shareholders who are employees of the Investment Manager.

Incentive Fee

As of the end of each year, the Investment Manager will be paid an amount equal to twenty percent (20%) of the net profits (including net unrealized gains) (the "Incentive Fee"), if any, for such year allocable to each Common Share. For a description of the manner in which the Incentive Fee is borne by each Common Share and the time of payment, see Section 7 "Offering of Common Shares" and Appendix A. If a Common Share has a loss chargeable to it during any year and during a subsequent year there is a profit allocable to such Common Share, there will be no Incentive Fee payable with respect to the Common Share until the amount of the loss previously allocated to the Common Share has been recouped. All or a portion of the Incentive Fee attributable to a Common Share may be paid by redemption of a portion of a Shareholder's Common Shares. A specific description of the manner in which such redemption may be made is set forth in Appendix A hereto. The Directors may, in their sole and absolute discretion, but with the consent of the Investment Manager, waive the payment of all or part of the Incentive Fee with respect to any Shareholder for any period the Directors determine is appropriate, including with respect to Shareholders who are employees of the Investment Manager.

The Investment Management Agreement provides, unless the Investment Manager elects to defer receipt of the Incentive Fee (and/or the Management Fee) as further described below, that the Investment Manager will be paid the Incentive Fee in the following manner: (i) 90% of the estimated Incentive Fee within 30 calendar days after the end of the fiscal year and (ii) the balance of the Incentive Fee upon completion of the Fund's audited financial statements. In the event that the Investment Management Agreement is terminated or a Shareholder's Common Shares are redeemed prior to the last day of the year, the Incentive Fee will be computed with respect thereto as though such date were the last day of the year and at such point the Incentive Fee will be due.

Deferral of Fees

The Investment Manager may elect to defer payment of its Management Fee or Incentive Fee to the first day of any fiscal year following the quarter or year such fee was earned. If the Investment Manager elects to defer payment of all or part of the Management Fee or Incentive Fee, any such deferred amounts payable to the Investment Manager will be treated, and the amounts eventually payable at the end of such deferred periods will be determined, as if such deferred amounts had been invested in Common Shares (or in such "alternative investments" as to which the Fund and the Investment Manager agree) on the first day of the fiscal quarter that they would otherwise be payable in the case of the Management Fee or on the first day following the fiscal year that they were earned in the case of the Incentive Fee and redeemed as of the last day of the deferred period. The deferred fees and amounts of net profits, if any, allocated to such deferred fees will be paid promptly generally after the end of the deferred period. The deferred amounts payable to the Investment Manager shall be carried on the Fund's books as a liability.

Other Terms of the Investment Management Agreement

The Investment Management Agreement provides that it shall continue until the close of business on December 31, 2025, except that the Investment Manager or the Fund may terminate the Investment Management Agreement effective at the close of business on the last day of any calendar quarter by giving the other party not less than 30 calendar days' written notice. The Fund may terminate the Investment Management Agreement only if such termination is approved by the unanimous vote of all the outstanding Common Shares of the Fund.

The Investment Management Agreement recognizes that the Investment Manager, its principals, officers, employees and affiliates may be or become associated with other investment entities and engage in investment management for others, see Section 5 "Risk Factors - Potential Conflicts of Interest." Except to the extent necessary to perform its obligations under the Investment Management Agreement, the Investment Manager, its principals, officers, employees and affiliates are not limited or restricted from engaging in or devoting time and attention to the management of any other business, whether of a similar or dissimilar nature, or to render services of any kind to any other corporation, firm, individual or association. In this regard, the Investment Manager also serves as (i) the management company of Karsch Capital I, LP, Karsch Capital II, LP, and KCM Alpha Only Fund, LP, U.S. limited partnerships, (ii) the investment manager of Karsch Capital II, Ltd. and KCM Alpha Only Fund, Ltd., Cayman Islands exempted companies, and (iii) the investment manager to certain managed accounts. Additionally, the Investment Manager is affiliated with the U.S. funds' general partner, Karsch Associates, LLC. All such funds, with the exception of Karsch Capital I, LP, Karsch Capital II, LP and Karsch Capital II, Ltd. (which are intended to be managed substantially *pari passu* with the Fund), have somewhat similar, but not identical investment programs and methods of operation to those of the Fund. In addition, the Investment Manager and its affiliates may, through other investments, including these or other investment funds, have interests in the securities in which the Fund invests as well as interests in investments in which the Fund does not invest. The Investment Manager and its affiliates may give advice or take action with respect to such funds, other entities or accounts that differs from the advice given with respect to the Fund. It is also possible that the same investment positions held by the Fund and by the other clients and accounts will not be liquidated at the same time or at the same prices.

As stated in the Investment Management Agreement (to the extent permitted by applicable law) the Fund will indemnify the Investment Manager, its principals, officers, employees and affiliates, against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings, except that the Investment Manager, its principals, officers, employees and affiliates will not be indemnified against any liability to which they would otherwise be subject by reason of willful misconduct, bad faith or gross negligence in the performance of their duties, or reckless disregard of their obligations and duties under the Investment Management Agreement. To the extent legally permissible, the Fund shall, at the request of the Investment Manager, advance amounts and/or pay expenses as incurred in connection with its indemnification obligation; provided, however, that if it is later determined that any amounts advanced or

paid by the Fund should not have been advanced or paid, then the indemnified party shall promptly return any such amounts to the Fund.

5. **RISK FACTORS**

The Fund may be deemed to be a highly speculative investment and is not intended as a complete investment program. It is designed only for sophisticated investors who are able to bear the economic risk of the loss of their investment in the Fund and who have limited need for liquidity. The following risks should be carefully evaluated before making an investment in the Fund:

Nature of Investments. The Investment Manager will have broad discretion in making investments for the Fund. Investments will generally consist of publicly-traded equity securities and other assets that have significant risks as a result of business, financial market or other uncertainties. There can be no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Fund's activities and the value of its investments. No guarantee or representation is made that the Fund's investment objective will be achieved.

Special Situations. The Fund may invest in companies involved in (or the target of) acquisition attempts, tender offers or exchange offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction will either be unsuccessful, take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Fund may invest, there is a potential risk of loss by the Fund of its entire investment in such companies.

High Growth Industry Related Risks. The Fund may have investments in the securities of high growth companies. These securities may be very volatile. In addition, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, may operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses, have limited ability to protect their rights to certain patents, copyrights, trademarks and other trade secrets, or be otherwise adversely affected by the extremely competitive markets in which many of their competitors operate.

Portfolio Turnover. The investment strategy of the Fund may involve the taking of frequent trading positions, and, as a result, turnover and brokerage commission expenses of the Fund may significantly exceed those of other investment entities of comparable size.

Leverage. As noted above, the Fund may utilize leverage generally within the parameters of Regulation T of the Federal Reserve's margin rules. Although the use of leverage increases returns to investors if the Fund earns a greater return on the investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns to investors if the Fund fails to earn as much on such investments as it pays for such funds.

Portfolio Concentration. The Fund's portfolio may be more concentrated than other investment vehicles. Accordingly, the portfolio of the Fund may be subject to more rapid change in value than would be the case if the Fund's portfolio were less concentrated.

Options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks.

Derivatives. Derivatives, swaps and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty, absence of direct ownership or control of underlying investments, illiquidity, leverage and delay in payments to the Fund upon termination of portions of such derivatives instruments which the Fund may require in order to fund redemptions.

Swap Agreements. The Investment Manager may enter into equity, interest rate, index, currency rate swap and other agreements on behalf of the Fund. These transactions are entered into in an attempt to obtain a particular return when it is considered desirable to do so, possibly at a lower cost than if the Fund had invested directly in the asset that yielded the desired return. The Investment Manager anticipates that the risk of loss with respect to most swaps the Fund would enter into would be limited to the net amount of payments that the Fund is contractually obligated to make. If the other party to a swap defaults, the risk of loss of the Fund consists of the net amount of payments that the Fund contractually is entitled to receive.

Exchange Traded Funds (ETFs). ETFs represent shares of ownership in either funds or unit investment trusts that hold portfolios of common stocks or bonds, which are designed to generally correspond to the price and yield performance of their underlying indices, either broad stock market, stock industry sector, international stock, or U.S. bond. A primary risk factor relating to ETFs is that the general level of stock or bond prices may decline, thus affecting the value of an equity or fixed income ETF, respectively. An ETF may also be adversely affected by the performance of the specific sector or group of industries on which it is based. Although ETFs are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indices, ETFs may not be able to exactly replicate the performance of the indices because of their expenses and other factors.

Short Sales. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the Fund's portfolio. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

Small to Medium Capitalization Companies. The Fund may invest a portion of its assets in the stocks of companies with small-to medium-sized market capitalizations. While the Investment Manager believes they often provide significant potential for appreciation, those stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than in larger-capitalization stocks.

Non-U.S. Securities. Investing in securities of non-U.S. governments and companies which are generally denominated in non-U.S. currencies and utilization of options on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States Government or United States companies. These considerations may include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Trading in Futures Contracts. Trading in futures contracts and options thereon are highly specialized activities which while they may increase the total return in the Fund's investments, may entail greater than ordinary investment risks.

Risks of Investing with Other Managers.

Increased Fees and Expenses. Investment through other investment funds may increase the Fund's fees and expenses, since the Fund will be obligated to pay its own fees and expenses as well as its pro-rata share of the fees and expenses of the managers of such funds and the investment funds they operate. This "layering" of fees and expenses results in higher costs to the Fund, and ultimately, the Shareholders than if the Fund exclusively invested directly in the underlying securities.

Lack of Control. If the Investment Manager invests the Fund's assets in other investment vehicles, the Fund will generally be a minority investor in such investment vehicles, and thus will lack control over the managers of such investment vehicles. The investment funds and/or their managers could: (a) change trading policies, strategies and traders without prior notice to the Fund; (b) substantially restrict the ability of their investors to withdraw their capital; (c) be new ventures with little or no operating history; and (d) use leverage or derivatives aggressively.

Difficulty of Monitoring Investments. If the Investment Manager invests the Fund's assets in other investment vehicles, although the Investment Manager will monitor the performance of such investment vehicles, it must ultimately rely on (i) the principals of each investment entity to operate in accordance with the investment strategy or the guidelines laid out by such persons; and (ii) the accuracy of the information provided by them. If a manager of such investment vehicle does not invest in accordance with the stated investment strategy or guidelines of a particular investment vehicle or a fund, or if the information it furnishes to the Investment Manager is not accurate, the Fund might sustain losses with respect to its investment.

Custodial Risks. Although the Investment Manager exercises care in the selection of investment vehicles, there is the remote risk of fraud involving the investment funds in which the Fund invests. This risk may be increased by the fact that the pools in which the Fund may invest will be private and will not have registered the interests therein that may be acquired by the Fund under U.S. federal or state law.

Valuation of Fund Investments. Valuation of the Fund's investments (which will indirectly determine the amount of the Management Fee and the Incentive Fee) may involve uncertainties and judgmental determinations, and if such valuations should prove to be incorrect, the Shareholders could be adversely affected. Independent pricing information may not at times be available with respect to certain of the Fund's securities and other investments. Accordingly, while the Fund will use its best efforts to value all investments in the Fund fairly, certain investments may be difficult to value and may be subject to varying interpretations of value.

Risks of Non-Controlling Investments; Control Person Liability. The Fund may take minority shareholdings in certain investee companies and, as a result, may be unable to protect its interests effectively. Such investments may involve risk not present in the Fund's investments where a third party is not involved, including the risk that a co-investor might at any time have economic or business interests or goals that are inconsistent with those of the Fund or may be in a position to take action contrary to the Fund's investment objectives. Conversely, the Fund may acquire controlling interests in certain investee companies. The exercise of control over an investee company may impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations or other types of liability in which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to arise, the Fund might suffer a significant loss.

Trading Errors. Though the Investment Manager will attempt to correct trading errors as soon as they are discovered, it may not be responsible for poor executions or trading errors committed by the brokers with which it transacts or the Investment Manager itself, unless, in the case of the Investment

Manager, such errors resulted from the Investment Manager's willful misconduct, bad faith or gross negligence in the performance of its duties, or reckless disregard of its obligations and duties.

Limited Operating History. Each of the Investment Manager and the Fund has limited independent operating history upon which investors can evaluate its likely performance. Accordingly, an investment in the Fund may entail a higher degree of risk than funds with independent operating histories.

Reliance on the Investment Manager. The Fund relies exclusively on the Investment Manager and, more specifically, Michael A. Karsch, for the management of its investment portfolio. There could be adverse consequences to the Fund in the event that Mr. Karsch ceases to be available to the Fund. The success of the Fund is therefore expected to be significantly dependent upon the expertise and efforts of the Investment Manager and, more particularly, of Mr. Karsch.

Illiquidity of Investment in the Fund. Because of the limitation on redemption rights and the fact that Common Shares are not tradable, an investment in the Fund is a relatively illiquid investment. An investment in the Fund should be considered only by persons financially able to maintain their investment.

New Issues. The Fund may invest or trade in new issues. Unless an exemption is available, any Common Shares owned by a Shareholder that is a restricted person as defined in the FINRA Rule 2790 will not participate in any new issue investment made by the Fund.

Failure of Prime Broker, Other Broker-Dealers. Institutions, such as brokerage firms or banks, may hold certain of the Fund's assets in "street name." Bankruptcy or fraud at one of these institutions, in particular, the Fund's prime brokers which would hold the majority of the Fund's assets, could impair the operational capabilities or the capital position of the Fund.

In addition, as the Fund may borrow money or securities or utilize operational leverage with respect to their assets, the Fund will post certain of their assets as collateral securing the obligations or leverage ("Margin Securities"). The Fund's prime brokers generally hold the Margin Securities on a commingled basis with margin securities of their other customers and may use certain of the Margin Securities to generate cash to fund the Fund's leverage, including pledging such Margin Securities. Some or all of the Margin Securities may be available to creditors of the Fund's prime brokers in the event of their insolvency. The Fund's prime brokers have netting and set off rights over all the assets held by them (which may indirectly include amounts held for the Fund's benefit in the special segregated bank account) to satisfy the Fund's obligations under its agreements with the Fund's prime brokers, including obligations relating to any margin or short positions.

Lack of Liquidity of Fund Assets. Fund assets may, at any given time, include securities and other financial instruments or obligations which are thinly-traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts and it may be extremely difficult to accurately value any such investments. It should be noted, however, that illiquid investments (as determined in the sole discretion of the Investment Manager) will not make up more than 3% of the Fund's net assets (measured at the time of investment).

In some cases and in the event of extreme market activity, the Fund may not be able to liquidate their investments promptly if the need should arise or to cover short sales, thereby forcing the Fund to incur substantial losses. Such circumstances or events could affect materially and adversely the amount of gain or loss the Fund may realize. In addition, the Fund may have difficulty selling illiquid securities and other investments, perhaps causing the Fund to have difficulty in meeting redemptions. No assurance may be given that the Fund will be able to satisfy Shareholders' redemption requests as of each applicable redemption date.

Restricted securities generally are also difficult or impossible to sell at prices comparable to the market prices of similar securities that are publicly traded. No assurance can be given that any such restricted securities will be eligible to be traded on a public market even if a public market for securities of the same class were to develop. It is highly speculative as to whether and when an issuer will be able to register its securities so that they become eligible for trading in public markets.

Incentive Fee. The 20% Incentive Fee to the Investment Manager may create an incentive for the Investment Manager to cause the Fund to make investments that are riskier or more speculative than would be the case in the absence of a fee based on the performance of the Fund. Since the Incentive Fee is calculated on a basis which includes unrealized appreciation of the Fund's assets, such Incentive Fee may be greater than if it were based solely on realized appreciation.

Potential Conflicts of Interest. The Investment Manager will use its best efforts in connection with the purposes and objectives of the Fund and will devote so much of its time and effort to the affairs of the Fund as may, in its judgment, be necessary to accomplish the purposes of the Fund. Under the terms of the Investment Management Agreement, the Investment Manager and its directors, members, partners, shareholders, officers, employees, agents and affiliates (herein referred to as the "Affiliated Parties") may conduct any other business, including any business within the securities industry, whether or not such business is in competition with the Fund. Without limiting the generality of the foregoing, any of the Affiliated Parties may act as investment adviser or investment manager for others, may manage funds, separate accounts or capital for others and may serve as an officer, director, consultant, partner or stockholder of one or more investment funds, partnerships, securities firms or advisory firms. In this regard, it should be noted that the Investment Manager also serves as (i) the management company of Karsch Capital I, LP, Karsch Capital II, LP and KCM Alpha Only Fund, LP, U.S. limited partnerships; (ii) the investment manager of Karsch Capital II, Ltd. and KCM Alpha Only Fund, Ltd., Cayman Islands exempted companies, and (iii) the investment manager to certain managed accounts. All such funds, with the exception of Karsch Capital I, LP, Karsch Capital II, LP and Karsch Capital II, Ltd. (which are intended to be managed substantially *pari passu* with the Fund) have somewhat similar but not identical investment programs and methods of operation to those of the Fund. In addition, other entities or accounts may have investment objectives or may implement investment strategies similar to or different from those of the Fund. In addition, the Affiliated Parties may, through other investments, including these or other investment funds, have interests in the securities in which the Fund invests as well as interests in investments in which the Fund does not invest. The Affiliated Parties may give advice or take action with respect to such other entities or accounts that differs from the advice given with respect to the Fund. Finally, certain investors in the Fund or other funds, entities and accounts may have negotiated different engagement (including liquidity) terms with the Fund, the Investment Manager or their affiliates (as appropriate) and may have access to additional trading information and supporting analytics as relating to the Investment Manager's investment strategies, which could affect their performance.

To the extent legally permissible, the Affiliated Parties are authorized to combine purchase or sale orders on behalf of the Fund together with orders for other funds and accounts managed by the Affiliated Parties and allocate the securities or other assets so purchased or sold, on an average price or other appropriate basis, among such funds and accounts. To the extent a particular investment is suitable for both the Fund and other clients of the Affiliated Parties, such investments may be allocated between the Fund and the other clients *pro rata* based on assets under management but (other than as relating to Karsch Capital II, LP, Karsch Capital I, LP and Karsch Capital II, Ltd.) will likely be allocated in some other manner that the Affiliated Parties determine is fair and equitable under the circumstances to all clients, including based on such clients' investment objectives and strategies. There may be instances (such as when orders are placed with more than one broker, or, if an order cannot be fully executed under prevailing market conditions), that make it impossible for the Affiliated Parties to average the prices paid. In this case, the Affiliated Parties will allocate the filled orders in an equitable manner. In these circumstances, each fund or account (including the Fund) may pay, in connection with the acquisition of securities by more than one fund or account, the average price per unit acquired, which may be higher than if it had acted alone.

From the standpoint of the Fund, simultaneous identical portfolio transactions for the Fund and the other clients may tend to decrease the prices received, and increase the prices required to be paid, by the Fund for its portfolio sales and purchases. Where less than the maximum desired number of shares of a particular security to be purchased is available at a favorable price, the shares purchased will be allocated among the Fund and the other clients in an equitable manner as determined by the Affiliated Parties. Further, it is likely that it will not always be possible or consistent with the investment objectives of the various persons or entities described above and of the Fund for the same investment positions to always be taken or liquidated at the same time or at the same price, however all transactions will be made on a "best execution" basis.

Periodically, the Investment Manager may seek to rebalance the portfolios of the Fund, Karsch Capital I, LP, Karsch Capital II, LP and Karsch Capital II, Ltd., which are intended to be managed substantially *pari passu* with the Fund, and its other clients, by causing one or more funds or accounts to sell securities at the same time the other funds or accounts purchase such securities. Due to subscriptions and redemptions, these trades may be necessary to re-align the securities holdings of such funds and the Investment Manager's other clients, so that they more accurately reflect the relative capital balances of all the funds and the accounts. If the Investment Manager elects to make such trades, they would be effected shortly after such capital activity has been reflected in such funds or its other clients, typically at or near the beginning of a month. In effecting such trades, the Investment Manager seeks to reduce the transaction costs to its clients of such transactions. Each such trade will be consistent with the investment objectives and policies of each of the funds and the Investment Manager's other clients, and will be effected by transacting the securities at a current market price through a third party brokerage firm for a commission.

As a result of the foregoing, the Affiliated Parties may have conflicts of interest in allocating their time and activity between the Fund and other entities, in allocating investments among the Fund and other entities and in effecting transactions for the Fund and other entities, including ones in which the Affiliated Parties may have a greater financial interest.

It is expected that some of the investors in the Fund shall be persons holding senior level executive positions at companies or in industries in which the Fund may invest. As such, the Investment Manager will undertake its best efforts to avoid any contacts with such investors that might give rise to the appearance of impropriety.

Michael A. Karsch, the controlling person of the Investment Manager also serves as a Director to the Fund. The fiduciary duty of Mr. Karsch as a Director may compete or be different from the interests of the Investment Manager and may give rise to a conflict of interest in relation to his duties to the Fund. Only the Directors may terminate the Investment Management Agreement between the Investment Manager and the Fund.

The amounts payable to the Affiliated Parties are based directly on the net asset value of the Fund. To the extent that valuation of assets is determined based upon information provided by the Affiliated Parties, because there is, for example, no public market price available, there may be a conflict of interest.

The Management Fee and the Incentive Fee to be received by the Investment Manager or other fees or allocations to be received by the Affiliated Parties may create an incentive for the Affiliated Parties to make investments in a manner that is riskier or more speculative than would be the case in the absence of such an arrangement.

The Directors, the Administrator, the prime brokers and any other broker appointed by the Fund, may from time to time also act as director, administrator or prime broker to, or be otherwise involved in, other collective investment schemes which have similar investment objectives to those of the Fund or may otherwise provide discretionary fund management or ancillary administration, or brokerage services to investors with similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of their business, have potential conflicts of interests with the Fund. The Fund

believes that each will at all times have regard in such event to its obligations to act in the best interests of the Shareholders of the Fund so far as practicable, having regard to its obligations to other clients, when undertaking any investments where conflicts of interests may arise and they will endeavor to resolve such conflicts fairly.

No Separate Counsel. Each of Ogier and Kirkpatrick & Lockhart Preston Gates Ellis LLP represents the Investment Manager and the Fund. The Fund does not have counsel separate and independent from counsel to the Investment Manager. The Investment Manager may, in the future, retain additional counsel for certain matters separate from counsel to the Fund. Ogier and Kirkpatrick & Lockhart Preston Gates Ellis LLP do not represent investors in the Fund, and no independent counsel has been retained to represent investors in the Fund.

Absence of Regulatory Oversight. While the Fund may be considered similar to an investment company, it does not intend to register as such under the U.S. Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder in reliance upon an exemption available to privately offered investment companies, and, accordingly, the provisions of that Act (which, among other matters, require investment companies to have disinterested directors, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) will not be afforded to the Fund or the Shareholders of the Fund.

Future Regulatory Change is Impossible to Predict. The securities and derivatives markets are subject to comprehensive statutes, regulations and margin requirements. In addition, the SEC and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. The regulation of securities and derivatives both inside and outside the United States is a rapidly changing area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on hedge funds, in general, and the Fund, in particular, is impossible to predict, but could be substantial and adverse.

Competition. The Fund will engage in investment activities which may become competitive with other investment programs such as those of other financial institutions, mutual funds, investment banks, broker-dealers, commercial banks, insurance companies and pension funds, as well as private investors, all of whom may have investment objectives similar to those of the Fund. These competitors may have substantially greater resources than the Fund and may have greater experience than the Investment Manager and its affiliates. Substantial capital suddenly deployed in the asset classes in which the Fund invest to take advantage of the opportunities present in the sector can also reduce available investment and potential returns of the Fund.

No Dividends. The Fund does not intend to pay any dividends to the Shareholders, but intends to reinvest substantially all of the Fund's income and gain. Cash that might otherwise be available for distribution is also reduced by payment of Fund obligations and expenses (including fees and expense reimbursements payable to the Investment Manager), and establishment of appropriate reserves.

Limited Ability to Liquidate an Investment in Common Shares. There are significant restrictions on a Shareholder's right to redeem all or part of its Common Shares, transfer its Common Shares or pledge or otherwise encumber its Common Shares. Thus, it is unlikely that a holder of Common Shares will be able to liquidate its Common Shares in the event of an unanticipated need for cash. Each Shareholder is generally subject to payment of an early redemption fee for redemptions prior to the first anniversary of the purchase of Common Shares.

Net asset values at a redemption date may vary significantly from those at the time an irrevocable redemption request is submitted; a Shareholder will bear the risk of that variance. In addition, Common Shares may not be transferred or pledged except in compliance with significant restrictions on transfer as

required by federal and state securities and commodities laws and as provided in the Memorandum and Articles of Association of the Fund. The Memorandum and Articles of Association do not permit a Shareholder to transfer or pledge all or any part of its Common Shares to any person without the prior written consent of the Directors, the granting of which is in the Directors' sole and absolute discretion. The Fund also has the discretion to deliver redemption proceeds in securities rather than cash. These limitations, taken together, will significantly limit a Shareholder's ability to liquidate an investment in the Fund quickly. As a result, an investment in the Fund would not be suitable for an investor who needs liquidity.

Suspension of Redemption and Deferment of Redemption Proceeds. The Directors may, in their sole and absolute discretion, in certain circumstances declare a suspension of the determination of the valuation of the Fund's property or Common Shares or the redemption of Common Shares.

Effect of Substantial Redemptions. Substantial redemptions by a Shareholder within a short period of time could require the Fund to liquidate its investments more rapidly than would otherwise be desirable, possibly reducing the value of the Shareholder's assets and/or disrupting the Fund's investment strategies. Reduction in the Fund's size could make it more difficult to generate a positive return or to recoup losses due to, among other things, reductions in the Fund's ability to take advantage of particular investment opportunities or decreases in the ratio of its income to its expenses.

Tax Risks

General. Tax laws are subject to change, and tax liabilities could be incurred by investors as a result of changes thereto. Therefore, investors should consult their own tax advisers to determine the tax consequences of an investment in the Fund, especially in light of their particular financial situations.

Withholding Tax. Unless the Fund engages in a trade or business within the United States, none of the income it earns (except as noted below) or gains it realizes will be subject to U.S. federal income tax. However, payments to the Fund from U.S. sources of any U.S.-source dividends and of any interest, including interest on cash held in trading accounts, that is not "portfolio interest" (as described under "Taxation — U.S. Federal Income Taxation — Taxation of the Fund") will be subject to a 30% U.S. federal withholding tax. That tax will reduce the total return to the Fund and its Shareholders. The Fund expects that a large portion of its income from U.S. sources will be portfolio interest or gains from the sale of property.

Unrelated Business Taxable Income. A tax-exempt U.S. Shareholder will not be subject to U.S. federal income tax on dividends, if any, the Fund pays on its Common Shares or gains such Shareholder recognizes on the sale, exchange or redemption of its Common Shares, unless those dividends or gains constitute UBTI. Because the Fund is classified for federal tax purposes as an association (taxable as a corporation) rather than as a partnership, those dividends and gain should not constitute UBTI to a tax-exempt U.S. Shareholder unless it incurs debt to acquire its Common Shares, thus making the Common Shares "debt-financed property."

Taxation of Non-U.S. Shareholders. A non-U.S. Shareholder will not be subject to U.S. federal income tax on dividends, if any, the Fund pays on its Common Shares or on gains the Shareholder recognizes on the sale, exchange or redemption of its Common Shares. Special rules may apply to a Non-U.S. Shareholder that (1) has an office or other fixed place of business in the United States to which such a dividend or gain is attributable, (2) is a former citizen or resident of the United States, a controlled foreign corporation of U.S. persons, a foreign insurance company that holds Common Shares in connection with its U.S. business, a passive foreign investment company, or a corporation that accumulates earnings to avoid U.S. federal income tax or (3) in the case of an individual, is present in the United States for 183 days or more in the year of such sale, exchange or redemption and certain other requirements are met. These persons in particular are urged to consult their U.S. tax advisors before investing in the Fund.

THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUND. OFFEREEES SHOULD READ THE ENTIRE MEMORANDUM AND CONSULT WITH THEIR OWN ADVISORS BEFORE DECIDING TO PURCHASE SHARES.

6. DESCRIPTION OF COMMON SHARES

General

The authorized Common Shares of the Fund consist of 15,000,000 Common Shares having a par value of \$.01 (U.S.) per share, which Common Shares may be designated as either Class A Common Shares (the "Class A Shares") or Class B Common Shares (the "Class B Shares"). The Class A Shares and the Class B Shares are collectively referred to herein as "Common Shares." Class A Shares and Class B Shares are identical except as regards to participation in "new issues." As discussed below, Class A Shares may only be purchased by investors who do not fall within the proscription of Rule 2790 of FINRA relating to "new issues" and Class B Shares may only be purchased by investors who fall within such proscription. Each Class A and Class B Share has equal voting rights and within each class, the shares have equal dividend, distribution and liquidation rights. Notwithstanding the foregoing, the Directors may, in their sole discretion (with the consent of the Investment Manager), create separate Classes of Common Shares, which Classes will be issued to those investors in the Fund who will not be assessed any (or will be assessed reduced) Management or Incentive Fees or which may have other similar variations of rights. If any such additional Classes are issued, one Class will be issued for investors who may invest in new issues and a separate Class will be issued for investors who may not invest in new issues.

Subject to the exceptions set forth below, all decisions of the Shareholders will be made by the holders of a majority of outstanding shares represented at a meeting, provided that a quorum of the holders of one-third of the outstanding shares is present in person or by proxy. Notwithstanding the foregoing, (i) the dismissal of a member of the Board of Directors must be adopted by an affirmative vote of two-thirds of the votes cast at a general meeting of Shareholders at which more than one-half of the total number of Common Shares then issued and outstanding are represented; (ii) any investment advisory or management contract entered into by the Fund (except any such agreements entered into by the Investment Manager on behalf of the Fund pursuant to its discretionary authority under the Investment Management Agreement) may not be terminated by the Fund unless such termination is approved by a unanimous vote cast at a meeting at which all the issued and outstanding Common Shares are represented; (iii) amendments to the Memorandum of Association and the Articles of Association which, in the opinion of the Directors, have a material adverse effect on the rights of Shareholders of the Fund must be approved by two-thirds of the votes cast at a meeting at which not less than one-half of the issued and outstanding Common Shares are represented; and (iv) the merger or consolidation of the Fund with another corporation or the dissolution of the Fund requires the affirmative vote of the holders of three-quarters of the Common Shares outstanding. Any matter referred to herein may also be adopted by resolution in writing of all the Shareholders.

Except as described below under "Common Shares; Allocation of New Issues" and as described above, there are no conversion or pre-emptive rights in connection with any Common Shares of the Fund. All Common Shares of the Fund, when duly issued, will be fully paid and nonassessable.

The Fund's Common Shares have noncumulative voting rights, which means that the holders of more than 50% of the Common Shares voting for the election of Directors can elect all of the Directors if they choose to do so, and in such event the holders of the remaining Common Shares representing less than 50% of the Common Shares voting for such election of Directors will not be able to elect any person or persons as Directors.

Common Shares will be registered in the name of the Shareholder and held in book form unless otherwise requested in writing by a Shareholder. A Shareholder may elect to receive a certificate representing Common Shares of the Fund. From time to time, the Fund, by a resolution of Shareholders,

may increase the authorized share capital in order to have a substantial number of shares available at all times for issuance.

**Common Shares;
Allocation of New Issues**

From time to time, the Fund may, to the extent permitted by the FINRA Rules, as may be amended from time to time (the "Rules"), purchase equity securities that are part of an initial public offering (sometimes referred to as "IPOs" or "new issues"). Under the Rules, brokers may generally not sell such securities to a private investment fund, if the fund has investors who are "Restricted Persons", which category includes persons employed by or affiliated with a broker and portfolio managers of hedge funds and other registered and unregistered investment advisory firms, unless the Fund has a mechanism in place that excludes such Restricted Persons from receiving allocations of profits from new issues ("Restricted Persons" will be issued Class B Shares, while other investors will be "Unrestricted Persons" and will be issued Class A Shares). The profits and losses with respect to new issues will generally be allocated to investors in the Fund that are Unrestricted Persons. The Fund may, however, avail itself of a "de minimis" exemption pursuant to which a portion of any new issue profits and losses may be allocated to Restricted Persons. The Fund's Articles of Association provide that the Directors are authorized to determine, among other things: (i) the manner in which new issues are purchased, held, transferred and sold by the Fund and any adjustments with respect thereto (including interest); (ii) the Shareholders who are eligible and ineligible to participate in new issues; (iii) the method by which profits and losses from new issues are to be allocated among Shareholders in a manner that is permitted under the Rules (including whether the Fund will avail itself of the "de minimis" exemption or any other exemption); and (iv) the time at which new issues are no longer considered as such under the Rules.

Each subscriber for and each transferee of Common Shares will be required to complete and execute a statement representing to the Fund that he does not fall within the proscription of the Rules of FINRA. Persons who do not fully complete and execute such statement as required by the Fund may generally not be permitted to participate in new issues to any extent, until they establish their eligibility to participate in new issues to the Fund's satisfaction. Shareholders may also be requested to provide periodic updates of such information and failure to do so may result in the Shareholder's Class A Shares being converted into Class B Shares.

The Fund may permit holders of Class B Shares who are eligible to own Class A Shares to convert their Class B Shares to Class A Shares based upon their relative net asset values at the time of conversion, and any such holder will be required to execute a statement regarding his eligibility to participate in "new issue" securities.

If the Fund determines to its satisfaction that an owner of Class A Shares falls within the proscription of FINRA Rules, the Fund will give notice to the Shareholder who will have 10 calendar days from the date of such notice to respond and in the absence of any response or if the Fund is not satisfied with the response, it may by further notice redeem the Class A Shares of such Shareholder as of the date specified in such notice and apply the redemption proceeds to the purchase of an equivalent value of Class B Shares in the Fund on the date specified in such notice.

Special Designation as Non-Voting Common Shares

While the Fund's Common Shares generally have voting rights ("Voting Common Shares"), the Fund, at its discretion, may designate certain Common Shares as Non-Voting Common Shares in order to avoid certain adverse U.S. tax or filing requirements applicable to the Fund or any Shareholder. In particular, Non-Voting Common Shares may be issued for new subscriptions by U.S. Shareholders if at the time of the subscription the Fund determines, at its discretion, that issuing the shares as Non-Voting Common Shares is necessary or advisable to avoid these possible adverse consequences. The status of the shares as non-voting will, of course, be fully disclosed to the investor at the time of its subscription and any such investor will be allowed to revoke his subscription upon notification of such classification. In addition, existing Shareholders who have been issued Voting Common Shares may have such shares

converted to Non-Voting Common Shares if the Fund determines, at its discretion, that such conversion is necessary or advisable; provided that the Shareholder will be granted the right to redeem such shares prior to conversion. Except as regards voting rights, Non-Voting Common Shares shall be identical in all respect to Voting Common Shares and, accordingly, references herein to Shares or Common Shares shall mean both Voting Common Shares and Non-Voting Common Shares unless otherwise indicated. Although Non-Voting Common Shares shall not have the right to vote at general meetings of the Fund or class meetings, in the event of any proposed variation or abrogation of rights affecting Non-Voting Common Shares as a class, each holder of Non-Voting Common Shares will receive notice of the proposed change and an opportunity to redeem its shares prior to the change taking effect.

Common Shares that are designated as Non-Voting Common Shares may be deemed to constitute a separate class of Common Shares. The Directors will use their best efforts to ensure that any such designation is in the best interest of the Fund as a whole.

7. OFFERING OF COMMON SHARES

Common Shares are currently offered at the Offering Price (as defined below) per Common Share and subscriptions are generally permitted monthly on the first business day of each calendar month. For purposes of this Memorandum, "business day" shall mean any day that banks are open for business in New York, USA and the Cayman Islands. Common Shares of the Fund are speculative securities intended for persons who are experienced and sophisticated investors. The Fund will be conducting an offering of its Common Shares to a number of investors who meet the requirements set forth in the "Subscription Agreement and Revocable Proxy."

The minimum subscription for each investor is \$1,000,000 (U.S.); however, in no case may the minimum subscription be less than \$50,000 (U.S.). The minimum subscription for additional Common Shares after an initial purchase is \$100,000 (U.S.). Subscriptions for Common Shares may be made in cash or, at the discretion of the Board of Directors, in securities acceptable to the Board of Directors. The proper documentation necessary to purchase Common Shares must be received by the Fund at least two business days prior to the purchase date unless waived by the Fund.

Investors interested in subscribing for Common Shares should follow the procedures set forth in Section 15 "Procedure to Purchase Common Shares."

Offering Price

Common Shares will initially be offered at a fixed price of \$100 (U.S.) per Common Share during the initial offering period and thereafter Common Shares will generally be offered at the net asset value as of the close of business on the immediately preceding day (the "Offering Price"). However, when Common Shares are subscribed for during the course of a fiscal year ("Interim Purchases"), certain adjustments to the amount of money paid for the purchase of Common Shares are necessary. This is done so that (i) the Incentive Fee paid to the Investment Manager is charged only to those Common Shares which have appreciated in value since their acquisition, (ii) all Shareholders (within a particular class) will have the same amount per share at risk and (iii) all Common Shares will have the same net asset value. A specific description of the manner in which these adjustments shall be made is set forth in Appendix A hereto.

Payments to Sponsors

It is noted that if a sponsor is instrumental in the sale of Common Shares to a particular investor, the sponsor may, in certain limited situations, charge such Shareholder a fully disclosed sales charge. Investors who do not make their subscription to the Fund through such brokers will not be subject to any such sales charge. In no event will any sales charges be payable to the Fund or the Investment Manager. It should also be noted that the Investment Manager may pay (or cause to be paid) fees to persons (whether or not affiliated with the Investment Manager) who are instrumental in the sale of

Common Shares. Any such fees will not be payable by or chargeable to the Fund, any Shareholder or prospective Shareholder.

8. **REDEMPTIONS**

Any holder of Common Shares has the right, in accordance with and subject to the applicable provisions of the Articles of Association of the Fund and the laws of the Cayman Islands, to have all or a portion of his Common Shares redeemed as of the last business day of each calendar month. The Shareholder must request such redemption in writing, which request must be received by the Fund at least 45 calendar days prior to such redemption date; provided, however, that any Shareholder who redeems Common Shares prior to the first anniversary of its purchase of such Common Shares may be assessed a redemption fee of up to (i) 2.5% on such Common Shares purchased prior to May 1, 2004, and (ii) 3% on such Common Shares purchased on or after May 1, 2004, payable to the Fund. The redemption fees are generally intended to compensate the remaining Shareholders for the costs of such redemption. For purposes hereof, an anniversary shall occur on the 365th consecutive day (counting the closing date as the first day) or, if such 365th day is not a business day, the immediately preceding business day. Notwithstanding anything to the contrary, the Fund may waive or modify any provisions relating to redemptions for any (including affiliated) Shareholders.

In addition, each Shareholder will be permitted to redeem (without being assessed any redemption fee) completely from the Fund at any time if Mr. Karsch dies or becomes disabled or incapacitated (so that he is unable to perform his duties as portfolio manager of the Investment Manager for at least 90 calendar consecutive days). Such special redemption right is exercisable by delivery of written notice to the Fund within 30 calendar days after the Shareholders are sent notice of the events in the preceding sentence.

Common Shares will be redeemed at the Redemption Price (as described below) as of the close of business on such redemption date as determined in accordance with the applicable redemption provisions set forth in the Articles of Association. Redemptions shall be paid in cash (in U.S. dollars) or, in the sole discretion of the Board of Directors (in consultation with the Investment Manager), in securities, or partly in cash and partly in securities. A partially redeeming Shareholder will generally be paid within 30 calendar days; provided, however, that if a Shareholder redeems at least 90% of its Common Shares, it shall be paid the redemption amount thereon in the same manner as a completely redeeming Shareholder.

At redemption, the Redemption Price of a Common Share will be calculated with reference to (i) the net asset value of the Common Shares on the date of redemption, and (ii) all or a portion of the Equalization Factor to the extent that the increase in value of the Common Shares that caused the payment of the Equalization Factor has not been lost or has not been paid previously to the redeeming Shareholder, all as more fully set forth in Appendix A (together, the "Redemption Price").

Redemption requests must be made by mail or facsimile. However, if the Shareholder has elected to have share certificates sent to him rather than held for him by the Administrator, the redemption request must be accompanied by delivery to the Fund of the certificates for the shares to be redeemed. If by mail, the Shareholder's request should be made by letter addressed to Karsch Capital, Ltd., c/o Goldman Sachs Administration Services, Gardenia Court, Suite 3307, 45 Market Street, Camana Bay, PO Box 896, Grand Cayman, KY1-1103, Cayman Islands, and if by facsimile the request should be sent to (345) 949-6773. Except for certain partial redemptions discussed above, payment of the Redemption Price will be made as soon as practicable but, except in cases where share certificates and share transfers are not delivered (if applicable), the Shareholder will receive at least 90% of the Redemption Price no later than 30 calendar days following the date of redemption. Promptly after the final net asset value has been determined in respect of the Common Shares redeemed (which in the Fund's discretion may be after the Fund's independent public accountants have completed their examination of the Fund's annual financial statements), the Fund will pay to such Shareholder the balance, if any, of the amount to which such Shareholder is entitled, or such Shareholder will be obligated to repay the Fund the excess, if any, of the amount previously paid over the amount to which such

Shareholder is entitled, in each case together with interest thereon, to the extent permitted by applicable law. Such interest shall accrue from the date of such redemption to the date of the payment of such excess at an annual rate equal to the rate then obtained by the Fund with respect to such amount. The Fund has the right to make payment on such redemption in securities owned by the Fund. The payment of the Redemption Price to a Shareholder who is redeeming all of his Shares shall be subject to the retention of a reserve for Fund liabilities in such amount as shall be determined by the Fund in its discretion. If the reserve (or portion thereof) is later determined to have been in excess of the amount required, the proportionate amount of the excess shall be returned to the redeemed Shareholder with interest thereon at the rate then obtained by the Fund with respect to such amount.

Compulsory Redemption

The Board of Directors may, with or without cause, in its sole discretion, redeem the Common Shares of any Shareholder, in whole or in part, at any time on not less than 20 calendar days' notice, such redemption to be effective on the date specified in such notice. If the Board of Directors, in its sole discretion, deems it to be in the best interests of the Fund to do so because the continued participation of any Shareholder in the Fund might cause the Fund to violate any law, rule or regulation or expose the Fund to litigation, arbitration, administrative proceedings or any similar action or proceeding, the Board of Directors may require the redemption of such Shareholder's Common Shares from the Fund, in whole or in part, at any time on not less than 5 calendar days' notice, such redemption to be effective on the date specified in such notice. Payment shall be made in accordance with the procedure applicable to Common Shares which are redeemed at the request of the holder.

Suspension of Redemption Rights

The Board of Directors may suspend the right of the Shareholders of the Fund to require the Fund to redeem Common Shares (and the calculation of net asset value) during any period when:

- (a) any stock exchange on which a substantial part of securities owned by the Fund are traded is closed, otherwise than for ordinary holidays, or dealings thereon are restricted or suspended;
- (b) there exists any state of affairs as a result of which (i) disposal of a substantial part of the investments of the Fund would not be reasonably practicable and might seriously prejudice the Shareholders of the Fund or (ii) it is not reasonably practicable for the Fund fairly to determine the net asset value;
- (c) none of the requests for redemption which have been made may be lawfully satisfied by the Fund in U.S. dollars; or
- (d) there is a breakdown in the means of communication normally employed in determining the prices of a substantial part of the investments of the Fund.

9. NET ASSET VALUE

The net asset value of a Common Share at any date shall be the total net asset value of Fund or the relevant class of the Fund divided by the number of Common Shares of the relevant class then outstanding. The total net asset value of the relevant class of the Fund at any date shall be calculated using GAAP as a guideline (other than as to amortization of organizational costs), unless otherwise deemed appropriate at the discretion of the Fund (in consultation with the Investment Manager), and in accordance with the following:

- (a) no value will be assigned to goodwill;

- (b) organizational expenses will be written off over a five year period beginning on the date the Fund commences operations;
- (c) accrued Management and Incentive Fees and other fees will be treated as liabilities;
- (d) dividends payable on the Common Shares after the date as of which the total net asset value is being determined to Shareholders of record prior to such date will be treated as liabilities;
- (e) the market value of positions in securities shall be as follows: securities that are listed on a stock exchange or the NASDAQ national market and are freely transferable shall be valued at their last sales price on the date of determination on the primary stock exchange or the NASDAQ national market during the regular trading session, as applicable, which is the principal exchange or over the counter market, as applicable, for such securities. Securities not so listed and traded over the counter will be valued at their closing bid price, if held long, or closing ask price, if sold short. If the market was closed on such day, the valuation price for the most recent previous day shall be used. Options listed on a national securities exchange or the NASDAQ national market will be valued at the mean between their bid and asked prices. Notwithstanding the foregoing, if in the reasonable judgment of the Board of Directors at its discretion (in consultation with the Investment Manager), the listed price for any security held by the Fund does not accurately reflect the value of such security, the Board of Directors (in consultation with the Investment Manager) may, in good faith and upon a reasonable basis value such security at a price which is greater or less than the quoted market price for such security;
- (f) the market value of a financial future, forward or similar contract or any option on any such instrument traded on an exchange shall be the most recent available closing quotation on such exchange; provided that if the Board of Directors (in consultation with the Investment Manager) determines that such closing price does not accurately reflect market value due to price limit constraints, such contract or option shall be valued at fair market value as determined by the Board of Directors in good faith and upon a reasonable basis (in consultation with the Investment Manager);
- (g) in valuing the Fund's investments in other investment entities, the Fund (in consultation with the Investment Manager) shall be entitled to rely on the last unaudited or audited financial statement or performance report of any such investment entity, unless the Directors in good faith and upon a reasonable basis (in consultation with the Investment Manager) determine in their sole discretion that some other valuation is appropriate;
- (h) (i) in the discretion of the Directors (in consultation with the Investment Manager), interest may be assessed on that portion of the net asset value of the Fund used to invest in "new issue" securities and may be debited, in the case of the Class A Shares (and not Class B Shares), and credited, in the case of all Common Shares, to ensure the equitable treatment of all Shareholders, at a rate equal to the rate then obtained by the Fund with respect to such amount during the period that Fund assets are used to invest in "new issue" securities;
- (ii) unless otherwise permitted by applicable law, the increase (or decrease) in the net worth of the Fund resulting from the investment in "new issue" securities by the Fund shall be credited to the net asset value of the Class A Shares (and not Class B Shares);
- (iii) unless otherwise permitted by applicable law, "new issue" securities will be purchased and held on behalf of the Class A Shares (and not Class B Shares) and eventually sold or, if held for 30 calendar days, to the extent permissible, allocated among all Shareholders at their then fair market value; and

- (iv) unless otherwise permitted by applicable law, liabilities relating solely to "new issues" may, in the Fund's discretion, be allocated solely to the Class A Shares;
- (i) the Investment Manager will determine the fair market value of certain restricted or private securities, in its discretion in good faith and subject to the supervision of the Directors; provided that the Investment Manager or Directors may retain the services of reputable pricing agents, brokers or accountants to assist it in the valuation of such investments; and
- (j) all other assets and liabilities of the Fund shall be valued in the manner determined by the Board of Directors of the Fund in good faith and upon a reasonable basis (in consultation with the Investment Manager) to reflect their fair market value.

Any determinations of the net asset value by the Board of Directors hereunder shall be made by the Directors who are not affiliated with the Investment Manager. In connection with the calculation of the net asset value of the Fund, the Board of Directors may consult with and is entitled to rely upon the advice of the Investment Manager. In no event and under no circumstances shall the Board of Directors or the Investment Manager incur any individual liability or responsibility for any determination made or other action taken or omitted by them in good faith.

Calculation of net asset value may be suspended upon the occurrence of the events specified under "Suspension of Redemption Rights" above.

10. **TAXATION MATTERS**

The tax status of the Fund and its Shareholders under the tax laws of the Cayman Islands and the United States is summarized below. The summary is based on the assumption that the Fund is owned, managed and operated as contemplated. The summary is considered in the opinion of the attorneys indicated below to be a correct interpretation of existing laws as applied at the date of this Memorandum, but no representation is made or intended by the Fund (i) that changes in such laws or their application or interpretation will not be made in the future or (ii) that the United States Internal Revenue Service will agree with the above-described interpretation as applied to the method of operation of the Fund. Persons interested in subscribing for the Fund's Common Shares should consult their own tax advisers with respect to the tax consequences, including the income tax consequences, if any, to them of the purchase, holding, redemption, sale or transfer of the Common Shares.

Cayman Islands Taxes

Fund Level. The Fund is not subject to any income, withholding or capital gains taxes in the Cayman Islands. The Fund has received an undertaking from the Governor-in-Cabinet of the Cayman Islands pursuant to the Tax Concessions Law (Revised) of the Cayman Islands that for a period of twenty years from the date of the grant of the undertaking, no law which is thereafter enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations will apply to the Fund or its operations; and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax will be payable on or in respect of the shares, debentures or other obligations of the Fund, or by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of The Tax Concessions Law (Revised). No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Common Shares.

Shareholder Level. Shareholders will not be subject to any income, withholding or capital gains taxes in the Cayman Islands, with respect to the Common Shares of the Fund owned by them and dividends received on such Common Shares, nor will they be subject to any estate or inheritance taxes in the Cayman Islands.

United States Taxes

THIS DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN. IT IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER. A TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Fund Level - Capital Gains. The Fund intends to conduct its affairs such that it is not deemed to be engaged in a trade or business in the United States. Accordingly, under present law, the Fund is not subject to any United States Federal income tax on its capital gains whether from sources within or without the United States to the extent that such securities are not classified as "United States real property interests" within the meaning of section 897 of the Internal Revenue Code of 1986, as amended (the "Code"). In this connection the Fund does not presently intend to buy any securities which would be classified as "United States real property interests."

Fund Level - Interest and Other Income. The Fund will be subject to a 30% withholding tax payable with respect to items of "fixed or determinable annual or periodical" income considered to be from sources within the United States, which term includes, among other things, certain interest income and dividends. Generally, interest received by the Fund upon obligations issued after July 18, 1984 which are either in registered form or in bearer form where there are arrangements reasonably designed that the obligations will be sold only to non-United States persons is exempt from this withholding tax.

Shareholder Level. Shareholders, as long as they are neither citizens nor residents of the United States nor engaged in a trade or business in the United States, are not subject to any United States Federal income, withholding, capital gains, estate or inheritance taxes with respect to the Common Shares owned by them or dividends received on such Common Shares.

U.S. Shareholders - Special Considerations

Controlled Foreign Corporation or PFIC Status. The Fund will monitor its Shareholders in an attempt to ensure that at all times the ownership of the Fund by U.S. Shareholders is below the threshold amounts set forth in Code section 957 and therefore that the Fund will not be classified as a "controlled foreign corporation" ("CFC") as defined in Code section 957, although there can be no assurance that the Fund will be able to do so. While, as noted above, dividends from the Fund and gain on the sale or redemption of Common Shares in the Fund should not constitute "unrelated debt-financed income" or "unrelated business taxable income" to a U.S. Shareholder who did not borrow money or otherwise utilize leverage to purchase its Common Shares, this conclusion may not be applicable to a 10% shareholder of a CFC.

In general, a non-U.S. corporation will constitute a controlled foreign corporation (a "CFC") if more than 50% of the shares of the corporation, measured by reference to combined voting power or value, are held, directly or indirectly, by U.S. Shareholders. A "U.S. Shareholder," for this purpose, is any person that is a U.S. person for federal income tax purposes that possesses (actually or constructively) 10% or more of the combined voting power of all classes of shares of a corporation entitled to vote. For this purpose, a shareholder may be treated as owning shares owned by certain related persons. Under the CFC rules, U.S. Shareholders would be treated, subject to certain exceptions, as receiving ordinary income at the end of each taxable year in an amount equal to their share of the Fund's "subpart F income," regardless of whether any cash distribution is made to such U.S. Shareholders. Among other items, and subject to certain exceptions, subpart F income includes dividends, interest, annuities, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties.

If the Fund is not classified as a CFC or if any shareholder is not a U.S. Shareholder of the Fund, the Fund may be treated as a "passive foreign investment company" ("PFIC"). A PFIC is any foreign

corporation that, in general, meets either of the following tests: (i) at least 75% of its gross income is passive or (ii) an average of at least 50% of its assets produce, or are held for the production of, passive income. If the Fund were treated as a PFIC, Fund shareholders generally would be subject to federal income tax on any "excess distribution" or of any gain realized on disposition of the stock as if the distribution was received or the gain was realized over the shareholder's entire holding period for the stock, with federal income tax payable at the highest rate in each taxable year in that period other than the current year, plus interest on the tax allocated to those prior taxable years. If the shareholder made an election to treat the PFIC as a "qualified electing fund" ("QEF"), then in lieu of the foregoing tax and interest obligation, the shareholder would be required to include in income each year its pro rata share of the QEF's annual ordinary earnings and net capital gain even if the QEF did not distribute those earnings and gain to the shareholders.

No Unrelated Business Taxable Income. While the Fund may purchase securities on margin, borrow money and otherwise utilize leverage in connection with its investments, under current law such leverage should not be attributed to, or otherwise flow through to, U.S. Shareholders in the Fund. Accordingly, assuming a U.S. Shareholder does not borrow money or otherwise utilize leverage to purchase its Common Shares in the Fund, any dividends from the Fund or gain on the sale or redemption of Common Shares in the Fund should not constitute "unrelated debt-financed income" as defined in Code section 514 or "unrelated business taxable income" as defined in Code section 512 to the U.S. Shareholder.

Tax Shelter Regulations. Certain rules require taxpayers to disclose – on their federal income tax returns and, under certain circumstances, separately to the IRS Office of Tax Shelter Analysis – their participation in "reportable transactions" and require "material advisors" to maintain investor lists with respect thereto. These rules apply to a broad range of transactions, including transactions, such as losses exceeding certain threshold amounts, that would not ordinarily be viewed as tax shelters, and to indirect participation in a reportable transaction (such as through a partnership). In addition, under recently enacted legislation, an excise tax and additional disclosure requirements may apply to certain tax-exempt entities that are parties to "prohibited tax shelter transactions," defined as "listed" tax shelters, transactions entered into under conditions of confidentiality, and transactions with contractual protection. It is not clear whether a tax-exempt entity would be considered a "party" to such a transaction as a result of an investment in a pooled investment vehicle such as the Fund; the Service and Treasury Department may provide further guidance on this question in the future. In addition, a separate excise tax may be imposed on the entity manager of such a tax-exempt entity, if the entity manager approves the entity as a party to the transaction, or causes it to be a party to the transaction, and knew or had reason to know that the transaction was a prohibited tax shelter transaction. Failure to comply with the disclosure requirements for reportable transactions or prohibited tax shelter transactions can result in the imposition of penalties. Prospective investors are urged to consult with their own tax advisers with respect to the effect of these rules on an investment in the Fund.

Other Taxes

Depending on the tax laws of any other jurisdiction, there may be withholding taxes imposed on dividend, interest income or capital gains received by the Fund on securities issued by governments or corporations of those jurisdictions.

The above statements with respect to United States taxes are based on advice received by the Fund from Kirkpatrick & Lockhart Preston Gates Ellis LLP, New York, New York and as to Cayman Islands taxes from Ogier, Cayman Islands.

11. ERISA CONSIDERATIONS

THIS DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN. IT IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CAN NOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER. A TAXPAYER SHOULD SEEK ADVICE

BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

General

The fiduciary responsibility standards and prohibited transaction restrictions of ERISA apply to most employee retirement and welfare benefit plans maintained by private corporate employers ("ERISA plans"). Although ERISA does not (with certain exceptions) apply to certain types of plans, such as individual retirement accounts, plans covering only self-employed individuals (*i.e.*, sole proprietors and partners) and their respective spouses, or corporate plans covering only a corporation's sole shareholder and his or her spouse, these plans (as well as most ERISA plans) are subject to the prohibited transaction excise tax provisions of Section 4975 of the Code, which are substantially similar to the prohibited transaction restrictions of ERISA. Neither ERISA nor Section 4975 of the Code applies to employee benefit plans established or maintained by government entities, plans established and maintained by churches or certain entities associated with churches, plans maintained outside the U.S. primarily for the benefit of nonresident aliens, and certain other plans excluded by statute.

The following summary of certain aspects of ERISA and Section 4975 of the Code is based upon the statutes, judicial decisions, and regulations and rulings of the U.S. Department of Labor ("DOL") in existence on the date hereof. This summary is general in nature and does not address every issue under ERISA or Section 4975 of the Code that may be applicable to the Fund or a particular investor. Accordingly, each prospective investor should consult with its own counsel in order to understand such issues affecting the Fund or the Shareholders.

Investment Considerations

The assets of the Fund will be invested in accordance with the investment policies and objectives described in this Memorandum. Accordingly, an authorized fiduciary of an employee benefit plan proposing to invest in the Fund should, in consultation with its advisors, consider whether the investment would be consistent with the terms of the plan's governing documents and applicable law. The fiduciary of an ERISA plan, for example, should give appropriate consideration to, among other things, (i) the role that an investment in the Common Shares would play in the plan's portfolio, taking into consideration whether the investment is designed reasonably to further the plan's purposes, the risk and return factors associated with the investment, the composition of the plan's total investment portfolio with regard to diversification, the liquidity and current return of the plan's portfolio relative to its anticipated cash flow needs, and the projected return of the plan's portfolio relative to its objectives, (ii) the fact that the Shareholders may consist of a diverse group of investors (possibly including taxable and tax-exempt entities) and that the Investment Manager necessarily will not take the investment objectives of any particular Shareholder that are not consistent with those of the Fund into account in managing Fund investments, (iii) limitations on the plan's right to redeem or transfer Common Shares, (iv) the implications arising from whether or not the assets of the Fund are treated as "plan assets" for purposes of ERISA and Section 4975 of the Code, and (v) the tax effects of an investment in Common Shares.

As described elsewhere in this Memorandum, the Investment Manager will be entitled to receive an Incentive Fee. The appropriate fiduciary of an investing ERISA plan should satisfy itself that the Incentive Fee meets applicable requirements of ERISA, taking DOL guidance regarding such fee arrangements into account. The fiduciary of an investing plan, whether or not subject to ERISA, will be required to represent, among other things, that it understands the Incentive Fee arrangements and has obtained information (or has had the opportunity to request additional information) regarding such arrangements and the risks associated with them, as necessary to enable the fiduciary to conclude that the Incentive Fee arrangements are reasonable and consistent with the interests of the plan.

NEITHER THE INVESTMENT MANAGER NOR THE FUND IS RESPONSIBLE FOR DETERMINING, AND NEITHER OF THEM MAKES ANY REPRESENTATION REGARDING, WHETHER

A PURCHASE OF COMMON SHARES IS A PRUDENT OR SUITABLE INVESTMENT FOR ANY EMPLOYEE BENEFIT PLAN.

Prohibited Transactions

A purchase of Common Shares by an employee benefit plan having a relationship with the Investment Manager or any of its affiliates outside the Fund could, under certain circumstances, be considered a transaction prohibited under ERISA, Section 4975 of the Code, or, in some circumstances, applicable state law. In addition, the prohibited transaction restrictions of ERISA prohibit an ERISA plan fiduciary from causing the plan to engage in a transaction if the fiduciary knows or should know the transaction would involve a "party in interest" of the plan. "Parties in interest" of an ERISA plan include, among others, persons providing services to the plan and certain affiliates of such persons. Transactions between ERISA plans and parties in interest that are prohibited include, among others, any direct or indirect sale or exchange of property between the plan and a party in interest and any transfer of plan assets to, or use of plan assets by or for the benefit of, a party in interest. Section 4975 of the Code prohibits substantially similar transactions between plans subject to that Section and "disqualified persons" of such plans, defined to include substantially the same persons as parties in interest for ERISA purposes. Although the Investment Manager believes that the Fund itself should not be considered a party in interest (or disqualified person) with respect to investing ERISA plans (or plans subject to Section 4975 of the Code), the application of ERISA, Section 4975 of the Code, or applicable state laws depends upon the particular facts and circumstances of each situation.

Accordingly, an authorized fiduciary of an investing plan will be required to represent, among other things, that the plan's purchase and holding of Common Shares will not be a transaction prohibited under ERISA, Section 4975 of the Code, or applicable state law, for which no exemption applies. Such fiduciary also will be required to represent that neither the Investment Manager nor any of its affiliates, agents, or employees (i) exercises any authority or control with respect to the management or disposition of assets of the plan used to purchase the Common Shares, (ii) renders investment advice for a fee (pursuant to an agreement or understanding that such advice will serve as a primary basis for investment decisions and that such advice will be based on the particular investment needs of the plan), with respect to such assets of the plan, or has the authority to do so, or (iii) is an employer maintaining or contributing to, or any of whose employees are covered by, the plan.

"Plan Assets"

Regulations issued by the DOL describe when the assets of an entity are to be treated as "plan assets" for purposes of ERISA and Section 4975 of the Code. The regulations provide that, if an ERISA plan or a plan subject to Section 4975 of the Code acquires an "equity interest" (such as the Common Shares) in a certain type of private investment entity (such as the Fund), and if benefit plan investors in the aggregate hold 25% or more of the value of any class of equity interests in the entity, the entity's assets will be treated as "plan assets" for purposes of ERISA's fiduciary responsibility standards and prohibited transaction restrictions and the parallel prohibited transaction excise tax provisions of Section 4975 of the Code. ERISA defines the term "benefit plan investor" for purposes of this computation to include employee benefit and other plans subject to ERISA and/or Section 4975 of the Code, as well as private investment funds and other entities whose underlying assets are treated as "plan assets" of such plans. (In addition, assets of the general account of an insurance company may, in certain circumstances, be considered "plan assets.") ERISA and the regulations require that any equity interests held by a person having discretionary authority or control over the assets of the entity or providing investment advice for a fee with respect to such assets or any affiliate of such person (as defined in the DOL regulations), other than interests held by such person through a benefit plan investor, be disregarded in making the 25% computation.

In order to avoid treatment of the Fund's assets as "plan assets" for purposes of ERISA or Section 4975 of the Code, the Fund intends to restrict aggregate investments by benefit plan investors to

less than 25% of the value of each class of Common Shares, not including Common Shares held by the Investment Manager (or any other person having discretionary authority or control over Fund assets or providing investment advice for a fee with respect to such assets) or any affiliate of the Investment Manager (as defined in the DOL regulations), other than Common Shares held by such person through a benefit plan investor. Because the 25% test is ongoing, the Fund not only may restrict initial or additional investments by benefit plan investors, it also may require existing benefit plan investors to redeem Common Shares if other investors redeem their Common Shares. The Fund will effect such rejections or compulsory redemptions in such manner as the Directors, in their sole discretion, determine to be reasonable and appropriate under the circumstances.

Although it is not expected that the assets of the Fund will be treated as "plan assets," if at any time benefit plan investors were to hold 25% or more of the value of any class of Common Shares, the Investment Manager and any other person having or exercising discretionary authority over the Fund or its assets would be a "fiduciary" (as defined in ERISA) with respect to investing ERISA plans and would be subject to the obligations and liabilities imposed on fiduciaries by ERISA. If the Investment Manager, with the advice of counsel, reasonably concludes that the assets of the Fund are, or are likely to become, "plan assets" for purposes of ERISA or Section 4975 of the Code, and that continued operation of the Fund under arrangements existing at the time would violate ERISA or would cause any Shareholder to be deemed to be a party to any transaction that violates the prohibited transaction restrictions of ERISA or Section 4975 of the Code for any reason other than as a result of an action taken exclusively by the Shareholder, the Investment Manager will make reasonable efforts to take such steps as are necessary or appropriate to avoid such result, including proposing amendments to the Fund's governing documents to ensure compliance with ERISA and Section 4975 of the Code, as applicable. However, if and for so long as the Fund's assets are treated as "plan assets" for purposes of ERISA and Section 4975 of the Code, the Investment Manager also will take such steps as it may determine are necessary to manage the Fund's assets in accordance with the applicable requirements of ERISA. In this respect, the Investment Manager is registered under the Advisers Act and, therefore, is eligible to be appointed as an "investment manager," as such term is defined by ERISA, by a "named fiduciary," as such term is defined by ERISA, of an investing ERISA plan. The Investment Manager also qualifies as a "qualified professional asset manager" under Prohibited Transaction Exemption 84-14 issued by the DOL under ERISA.

Considerations for Non-Plan Shareholders

Prospective investors that are not ERISA plans or subject to the prohibited transaction provisions of Section 4975 of the Code should note that, if and for so long as the Fund's assets are treated as "plan assets" for purposes of ERISA and Section 4975 of the Code, the Fund may be prevented from engaging in a transaction with a party in interest of an investing plan subject to ERISA or a disqualified person of a plan subject to Section 4975 of the Code, unless an exemption applies, even though the Fund includes investors not subject to ERISA or Section 4975 of the Code. Moreover, this summary does not include a discussion of any laws, regulations, or statutes that may apply to prospective investors that are not employee benefit plans or state statutes that impose fiduciary responsibility requirements in connection with the investment of assets of governmental plans and other plans not subject to ERISA or Section 4975 of the Code. Such investors should consult their own professional advisers about these matters.

FIDUCIARIES OF EMPLOYEE BENEFIT PLANS SHOULD CONSULT WITH THEIR OWN COUNSEL AS TO THE CONSEQUENCES UNDER ERISA, SECTION 4975 OF THE CODE, OR OTHER APPLICABLE LAW OF AN INVESTMENT IN THE FUND.

THE SALE OF COMMON SHARES TO AN EMPLOYEE BENEFIT PLAN IS IN NO RESPECT A REPRESENTATION BY THE FUND OR THE INVESTMENT MANAGER THAT AN INVESTMENT IN COMMON SHARES MEETS APPLICABLE LEGAL REQUIREMENTS WITH RESPECT TO INVESTMENTS BY EMPLOYEE BENEFIT PLANS GENERALLY OR ANY EMPLOYEE BENEFIT PLAN IN PARTICULAR.

12. **FUND ADMINISTRATOR; BOARD OF DIRECTORS**

The Fund has entered into an agreement with Goldman Sachs Administration Services (the "Administrator") to perform general administrative tasks for the Fund, which include the keeping of the financial records and the calling and conducting of all Shareholders' meetings. The fee payable to the Administrator will be based on its standard schedule of fees charged by the Administrator for similar services. The Administration Agreement provides that the Fund will indemnify and hold harmless the Administrator against all claims and demands, judgments, fines, costs or damages and proper expenses in connection therewith which may be incurred by the Administrator or which may be made against the Administrator in respect of the same sustained or suffered by any third party, except that the Administrator will not be indemnified against any liability to which they would subject by reason of the gross negligence or willful misconduct of the Administrator.

The Board of Directors of the Fund consists of Michael A. Karsch, J. Dennis Hunter and Jane Fleming. The Fund may compensate Directors (other than Directors that are affiliated with the Investment Manager). Set forth below are the biographies of Mr. Hunter and Ms. Fleming.

J. Dennis Hunter. Dennis Hunter has been the Managing Director of Queensgate Bank & Trust Company Ltd., Grand Cayman, Cayman Islands since 1993, and has over twenty seven years' experience of international banking and administration of mutual funds. Mr. Hunter was from 1978 to 1993 Financial Controller and Treasurer of Aall Trust & Banking Corporation Ltd., Grand Cayman, Cayman Islands. He graduated with a Higher National Diploma in Business Studies and postgraduate Diploma in Management Studies from Newcastle and Brighton Polytechnics respectively. Mr. Hunter is originally from Scotland but has been resident in the Cayman Islands since 1978.

Jane Fleming. Jane Fleming is currently the head of the Client Accounting department at Queensgate Bank & Trust Company Ltd. ("Queensgate"), Grand Cayman, Cayman Islands. Employed with Queensgate since 1997, Ms. Fleming has obtained broad experience acting as a director of Cayman-based hedge funds and managing client relationships requiring banking, fund, trust and/or accounting services at Queensgate. She was an Insolvency Accountant with Arthur Andersen of Glasgow, Scotland from August 1994 until October 1997. She is a qualified Chartered Accountant with the Institute of Chartered Accountants of Scotland (achieving the 2nd highest score in Scotland in final professional examinations), has successfully completed the Chartered Financial Analyst Level 1 examinations, and has an Honours Bachelor of Accounting Degree from the University of Glasgow.

The Articles of Association do not stipulate a retirement age for the Directors and do not provide for retirement of the Directors by rotation. There is no shareholding qualification for the Directors. The Directors are empowered to exercise all of the borrowing powers of the Fund.

13. **BROKERAGE AND CUSTODY**

The Investment Manager is authorized to determine the broker or dealer to be used for each securities transaction for the Fund. In placing orders, it is the Fund's policy to obtain the best price and execution for its transactions. Where best price and execution may be obtained from more than one dealer, the Investment Manager may purchase and sell securities through dealers who provide research, statistical and other information, although the Fund may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research services provided. Research furnished by brokers may include, but is not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; certain financial publications; statistic and pricing services, as well as discussions with research personnel, along with software, databases and certain other technical and telecommunication services utilized in the investment management process. Research services obtained by the use of commissions arising from the Fund's portfolio transactions may be used by the Investment Manager in its other investment activities. In negotiating commission rates, the Investment Manager will take into account the financial stability and reputation of brokerage firms and the brokerage and research services provided by such brokers. The Investment Manager intends to limit

the use of soft dollars to pay for products and services within the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934.

The Fund maintains accounts at Goldman, Sachs & Co. and Morgan Stanley, which serve as the Fund's prime brokers and custodians. Goldman, Sachs & Co. is located at One New York Plaza, New York, NY 10004, USA. Morgan Stanley is located at 1585 Broadway, New York, NY 10036. The Fund may appoint additional custodians at any time, provided that it notifies the Shareholders of the appointment of such additional custodians, and provided, further, that such custodians (i) maintain the Fund's assets in custodial accounts in the name of the Fund, and (ii) are "Qualified Custodians" under the Advisers Act. "Qualified Custodians" generally include banks or savings associations that have deposits insured by the U.S. Federal Deposit Insurance Corporation, U.S. SEC-registered broker-dealers, U.S. CFTC-registered futures commission merchants, and certain foreign financial institutions that hold customer assets in a segregated account. The Investment Manager reserves the right, in its sole discretion, to change or add prime brokers without further notice to the Shareholders. The compliance policies and procedures of the Investment Manager provide that if the Investment Manager or its affiliates inadvertently receive client funds or securities, the Investment Manager will not be deemed to have custody of such funds or securities, so long as it promptly forwards them to its clients, or clients' Qualified Custodians.

14. **OTHER TERMS OF THE FUND**

Expenses. The Investment Manager will render the services set forth in the Investment Management Agreement between the Investment Manager and the Fund, and will be responsible for the payment of all overhead expenses associated with rendering such services, including office rent and related utilities; furniture and fixtures; computer hardware; stationery; secretarial/administrative services; salaries; entertainment expenses; and employee insurance and payroll taxes. The Fund will pay all other expenses, including the fees paid to the Investment Manager and the Administrator; accounting, legal, audit, tax preparation and other professional expenses; organizational expenses; quotation services; research fees and expenses (including research-related travel fees and expenses); investment expenses such as commissions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees; fees and expenses of investment vehicles in which the Fund may invest, and any other expenses reasonably related to the purchase, sale or transmittal of Fund assets; the Investment Manager's registration and compliance expenses incurred in connection with the Investment Manager's registration under the Advisers Act and other expenses related to the Fund, including extraordinary expenses. The Fund's start-up and organizational expenses have been amortized over a period of five years from the commencement of the Fund's operations.

Fiscal Year and Fiscal Periods. The fiscal year of the Fund ends on June 30 of each year. Since Common Shares may be sold and redeemed by the Fund during the course of a fiscal year, the Fund's Articles of Association provide for fiscal periods, which are portions of a fiscal year, for the purpose of allocating net profits and net losses to the Common Shares. A new fiscal period will commence on the first day of each calendar month, the date next following the date of any redemption of Common Shares and the date of any sale of Common Shares (i.e., the date of any capital contribution), and the prior fiscal period will terminate on the date immediately preceding the first day of a new fiscal period.

Financial Statements and Reports. Each year, Shareholders will be sent audited financial statements of the Fund. At least quarterly, the Fund sends an unaudited report to each Shareholder setting forth the net asset value of its shares. In addition, Shareholders may receive other periodic reports concerning material portfolio developments, including monthly and weekly estimate net asset value reports, at the discretion of the Investment Manager. As a regulated mutual fund, the Fund is required to file its audited financial statements with the Monetary Authority of the Cayman Islands within six months of the end of the relevant financial year.

Auditors. McGladrey & Pullen, Cayman has been appointed as auditors for the Fund. The Fund may change the auditors without further notice to Shareholders.

Meetings of Shareholders. As an exempted company, the Fund is not required by law to hold scheduled general meetings of Shareholders. Meetings of the Shareholders of Common Shares may be called by the Board of Directors and shall be called at the request of the Shareholders of 50% or more of the outstanding Common Shares. All Shareholders' meetings will be held in the Cayman Islands, or such other location as the Board of Directors shall determine. All Shareholders' meetings require 14 calendar days' notice. Except with respect to certain matters as set forth in Section 6 above, holders of one-third or more of the outstanding Common Shares comprise a quorum at any Shareholders' meeting. Shareholders may designate an approved representative or proxy to attend Shareholder meetings in their absence.

Transferability of Common Shares. Common Shares may be transferred only if the proposed transferee of the Common Shares obtains the prior written approval of the Fund. In this regard, the proposed transferee will be required to make the representations and warranties required of a subscriber in form and substance satisfactory to the Fund. The Fund will have full discretion to approve or disapprove any proposed transferee (primarily to ensure that taxable U.S. persons do not become Shareholders). No proposed transfer will be recognized until the documents relating to it have been approved by the Fund. The Fund need not approve any transfer that is not or may not be consistent with any representation or warranty that the transferor of the Common Shares may have given to the Fund.

Indemnification. The Articles of Association provide, subject to applicable law, certain rights of indemnification in favor of Directors, officers, employees and agents of the Fund against legal liability and expenses if such persons have acted in accordance with certain standards of conduct and, in connection with the matter giving rise to a particular claim, did not engage in willful neglect or default.

Prevention of Money Laundering.

United States: In order to comply with applicable laws aimed at the prevention of money laundering and terrorist financing, each prospective investor that is an individual will be required to represent in the Subscription Agreement and Revocable Proxy that, among other things, he is not, nor is any person or entity controlling, controlled by or under common control with the prospective investor, a "Prohibited Person" as defined in the Subscription Agreement and Revocable Proxy (generally, a person involved in money laundering or terrorist activities, including those persons or entities that are included on any relevant lists maintained by the U.S. Treasury Department's Office of Foreign Assets Control, any senior foreign political figures, their immediate family members and close associates, and any foreign shell bank). Further, each prospective investor which is an entity will be required to represent in the Subscription Agreement and Revocable Proxy that, among other things, (i) it has carried out thorough due diligence to establish the identities of its beneficial owners, (ii) it reasonably believes that no beneficial owner is a "Prohibited Person," (iii) it holds the evidence of such identities and status and will maintain such information for at least five years from the date of its complete redemption from the Fund, and (iv) it will make available such information and any additional information that the Fund may require upon request.

Cayman Islands: In order to comply with applicable regulations aimed at the prevention of money laundering, the Fund, or the Administrator, will require verification of identity and source of funds from all prospective investors. Depending on the circumstances of each subscription, it may not be necessary to obtain full documentary evidence of identity.

The Fund and the Administrator reserve the right to request such information as is necessary to verify the identity and source of funds of a prospective investor. The Fund and the Administrator also reserve the right to request such identification evidence in respect of a transferee of Common Shares. In the event of delay or failure by the prospective investor or transferee to produce any information required for verification purposes, the Fund, or the Administrator, may refuse to accept the application or (as the case may be) to register the relevant transfer or process a redemption request and (in the case of a subscription of Common Shares) any funds received will be returned without interest to the account from which the monies were originally debited.

The Fund and the Administrator also reserve the right to refuse to make any redemption payment or other distribution to a shareholder if any of the Directors of the Fund or the Administrator suspects or is advised that the payment of any redemption moneys or other distribution to such shareholder might result in a breach or violation of any applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or such refusal is considered necessary or appropriate to ensure the compliance by the Fund, its Directors or the Administrator with any such laws or regulations in any relevant jurisdiction.

If, as a result of any information or other matter which comes to his attention, any person resident in the Cayman Islands (including the Fund, its Directors and the Administrator) knows or suspects that any payment to the Fund (by way of subscription or otherwise) is the proceeds of criminal conduct, such person is required to report such information or other matter pursuant to the Proceeds of Criminal Conduct Law (Revised) of the Cayman Islands and such report shall not be treated as a breach of any restriction upon the disclosure of information imposed by law or otherwise.

Regulation. The Fund falls within the definition of a "mutual fund" in terms of the Mutual Funds Law (Revised) of the Cayman Islands and, accordingly, is regulated under the Mutual Funds Law. However, the Fund is not required to be licensed or to employ a licensed mutual fund administrator since the minimum initial interest purchasable by a prospective investor in the Fund is not less than \$50,000(U.S.) or its equivalent in any other currency. Accordingly, the Fund is subject to continuing obligations to (i) file with the Monetary Authority of the Cayman Islands prescribed details of any changes to this Memorandum; (ii) file annually (within 6 months of the end of each fiscal year) with the Monetary Authority accounts audited by an approved auditor; and (iii) pay a prescribed annual fee (currently CI\$2,500 (\$3,049(U.S.))).

The Fund is subject to the supervision of the Monetary Authority and the Monetary Authority has wide supervisory powers under The Mutual Funds Law in that regard, including the power to instruct the Fund to have its accounts audited and to submit them to the Monetary Authority within such time as the Monetary Authority specifies. Failure to comply with any supervisory requests by the Monetary Authority may result in substantial fines. In addition, the Monetary Authority has wide powers to take action if certain events occur, such as the Fund not being able to meet its obligations when they come due or the Fund carrying on its business in a manner that is prejudicial to its investors or creditors. The powers of the Monetary Authority in these circumstances include the power to require the substitution of a Director and, at the expense of the Fund, to appoint a person to advise the Fund on the proper conduct of its affairs; and, at the expense of the Fund, to appoint a person to assume control of the affairs of the Fund including, but not limited to, having the ability to terminate the business of the Fund. There are other remedies available to the Monetary Authority including the ability to apply to the courts of the Cayman Islands for approval of other actions or requiring the Fund to reorganize its affairs in a manner specified by the Monetary Authority.

Complete Description. All Shareholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Memorandum and Articles of Association of the Fund.

This Memorandum does not purport to be and should not be construed as a complete description of the Memorandum and Articles of Association of the Fund, the Investment Management Agreement or the Administration Agreement, copies of which will be furnished on request made to the Fund at its principal office.

15. PROCEDURE TO PURCHASE COMMON SHARES

Persons interested in purchasing Common Shares of the Fund should inform themselves as to (i) the legal requirements within their own countries for the purchase of such shares and (ii) any foreign exchange restrictions which they might encounter.

Any person desiring to subscribe for Common Shares of the Fund is requested to complete and execute two copies of a "Subscription Agreement and Revocable Proxy," in the form furnished by the

Fund, offering in the subscription agreement to purchase a specified dollar amount of Common Shares, and send a copy thereof by facsimile and two completed and executed copies by mail or courier to: Karsch Capital, Ltd., c/o Goldman Sachs Administration Services, Gardenia Court, Suite 3307, 45 Market Street, Camana Bay, PO Box 896, Grand Cayman, KY1-1103, Cayman Islands, facsimile number: (345) 949-6773, followed by a copy thereof to Karsch Capital Management, LP, 110 East 59th Street, 22nd Floor, New York, New York 10022, U.S.A., Attn: Mr. Michael A. Karsch.

With respect to certain countries, special requirements may have to be observed with respect to subscriptions. Payment in the amount of the subscription in United States dollars should be made in accordance with the terms of the "Subscription Agreement and Revocable Proxy."

Subscribers for and each transferee of Common Shares will be required to give certain representations and undertakings to the Fund in the "Subscription Agreement and Revocable Proxy." The subscription documents to be executed and delivered by prospective subscribers will also contain the subscriber's agreement to indemnify and hold harmless the Fund and its Directors, officers, agents and other representatives and its Investment Manager (and affiliates, principals and employees thereof) against any loss, liability, cost or expense (including attorneys' fees, taxes and penalties) which may result, directly or indirectly, from any misrepresentation or breach of any warranty, condition, covenant or agreement set forth therein or in any other document delivered by the subscriber to the Fund.

The acceptance or nonacceptance of any subscription is solely at the discretion of the Fund and no reasons need be given for the nonacceptance of any subscription. Any subscription amounts not accepted by the Fund shall be promptly returned to the subscriber without interest.

No share certificates representing the Common Shares subscribed for will be forwarded to an investor unless specifically requested in writing. Generally, a Shareholder may only elect to receive a certificate if it demonstrates to the Fund that it is legally required to hold certificated Common Shares or the Fund otherwise approves such issuance.

The form of "Subscription Agreement and Revocable Proxy" grants a proxy to the Administrator, authorizing it or its designee to vote the Common Shares subscribed for on behalf of the subscriber at any meeting of Shareholders. Such proxy may be revoked by the Shareholder giving the proxy by written notice to the Administrator at the principal office of the Fund. Any such revocation shall be effective upon its receipt by the Administrator.

APPENDIX A - COMPUTATION OF OFFERING PRICE AND REDEMPTION PRICE

Common Shares in the Fund sold during the initial offering period to be determined by the Fund's Directors will be offered at an offering price of \$100 per share. Thereafter, Common Shares generally may be purchased on the first Business Day of each fiscal month or on such other days as determined by the Board of Directors at the net asset value per share as of the close of business on the immediately preceding Business Day. However, when shares are subscribed for during the course of a fiscal year ("Interim Purchase"), certain adjustments to the amount of money paid for the purchase of Common Shares are necessary. This is done so that (i) the Incentive Fee paid to the Investment Manager is charged only to those shares which have appreciated in value since their acquisition, (ii) all Shareholders will have the same amount per share at risk, and (iii) all shares will have the same net asset value per share.

The number of shares to be purchased will be based on the offering price per share (the "Offering Price") as defined below and as illustrated in the tables which follow. The Offering Price for each share is calculated in the following manner:

- (1) For shares purchased after the initial offering period at the beginning of the fiscal year ("Year Beginning"), the Offering Price is the Year Beginning net asset value per share ("Beginning Value").

- (2) For Interim Purchases,

When the net asset value per share is more than the Beginning Value, the Offering Price is the sum of the net asset value per share inclusive of the "Equalization Factor" as defined below. In general, the Equalization Factor is an amount which the shares outstanding since Year Beginning should be charged (i.e., 20% of the increase in net asset value per share since Year Beginning), and which the shares subscribed for at the date of the Interim Purchase ("Interim Purchase Date") should not be charged. To the extent that the increase in value of the shares that cause the payment of the Equalization Factor is not lost in the current year, the Equalization Factor attributable to such increase becomes payable to the Shareholder at the end of the current year. To the extent that the increase in value of the shares that causes the payment of the Equalization Factor is lost in the year the shares are purchased but is recovered in a subsequent year, the Equalization Factor attributable to such recovery will become payable to the Shareholder at the end of the year in which the recovery occurs. Upon redemption by a Shareholder of his shares, the same amount of the Equalization Factor will be paid to him as if the date of redemption were the last day of the fiscal year in which the shares are redeemed. Any Equalization Factor, or portion thereof, which is due to a Shareholder not redeeming his shares will be used to purchase additional Common Shares on behalf of such Shareholder as of the first day of the next succeeding fiscal year.

Certain adjustments are required at the end of the fiscal year if Common Shares are purchased during a fiscal year at a time when the net asset value per share is less than the Beginning Value or if Common Shares are purchased at the beginning of the fiscal year when there is a loss carryover¹ so that the purchasers of those shares will be charged an Incentive Fee equal to 20% of the net profits allocable to those shares. These adjustments will be effected by redeeming a sufficient number of those shares at the end of the fiscal year so that the particular Shareholder will be charged the appropriate Incentive Fee.

The following tables have been provided to illustrate the manner in which the adjustments set forth above operate. Table I illustrates the manner in which the adjustments described above operate with respect to shares subscribed for at the beginning and during a hypothetical fiscal year where there is no loss carryover at the beginning of the year. Table II illustrates the manner in which the adjustments described above operate with respect to shares subscribed for, prior to, at the beginning and during a hypothetical fiscal year where there is a loss carryover of \$20 per share at the end of the first year.

¹ The loss carryover per share at the beginning of any year shall be the loss carryover per share at the beginning of the preceding year plus an amount equal to the decrease in net asset value per share during the preceding year or minus an amount equal to the increase in net asset value during the preceding year.

TABLE I

Share holder	Shareholder Subscribes for Shares at	NAV on Date of Purchase	Equalization Factor Paid	Offering Price	NAV at Year End (before 20% Incentive Fee)	Regular 20% Incentive Fee Accrued at Year End	Additional Incentive Fee Payable	Equalization Factor Returned to Shareholder	NAV at Year End (after 20% Incentive Fee)	Number of Shares Held By Shareholder at Beginning of Year 2***
A	Year Beginning Jan. 1 NAV = \$100	\$100	\$0	\$100	\$140	\$8	\$0	\$0	\$132	1.0
B	Interim Purchase Date July 1 NAV = \$80	80	0	80	140	8	4*	0	132	128/132
C	Interim Purchase Date Oct. 1 NAV = \$120 (before 20% Incentive Fee)	116	4	120**	140	8	0	4	132	1 4/132

* Additional incentive fee owed for increase in NAV from 80 to 100 (which is not charged to Shareholder A). Adjustment made by redeeming portion of Shareholder B's shares at year-end.

** Includes Equalization Factor.

*** Shareholder C's Equalization Factor returned and invested in additional shares.

TABLE II

Share holder	Shareholder Subscribes for Shares at	NAV on Date of Purchase	Equalization Factor Paid	Offering Price	NAV at Year End (before 20% Incentive Fee)	Regular 20% Incentive Fee Accrued at Year End	Additional Incentive Fee Payable	Equalization Factor Returned to Shareholder	NAV at Year End (after 20% Incentive Fee)	Number of Shares Held By Shareholder at Beginning of Year 2***
A	Beginning of Year 1 NAV = 100	\$100	\$0	\$100	\$115	\$3	\$0	\$0	\$112	1.0
B	Beginning of Year 2 NAV = 80	80	0	80	115	3	4*	0	112	108/112
C	Interim Purchase Date April 1 Year 2 NAV = 110 (before Incentive Fee)	108	2	110**	115	3	0	2	112	1 2/112

* Additional incentive fee owed for increase in NAV from 80 to 100 (which is not charged to Shareholder A). Adjustment made by redeeming portion of Shareholder B's shares at year-end.

** Includes Equalization Factor.

*** Shareholder C's Equalization Factor returned and invested in additional shares.

Shareholder B in Table I, purchasing shares on an Interim Purchase Date when the net asset value has decreased since Year Beginning, pays an Offering Price of \$80 per share. Since the Incentive Fee which would accrue to his shares would be \$4 more than the Incentive Fee which would accrue for shares purchased by Shareholder A at Year Beginning, \$4 in amount of Shareholder B's shares would be redeemed at the end of the fiscal year so that Shareholder B would pay the current amount of Incentive Fee.

Shareholder C in Table I, purchasing shares on an Interim Purchase Date when the net asset value has increased since Year Beginning, pays an Offering Price of \$120 per share. The Equalization Factor is returned to him at Year End and applied to the purchase of additional stock since the Incentive Fee which would accrue to his shares would be \$4 less than the Incentive Fee which would accrue to the shares purchased by Shareholder A.

Shareholder B in Table II, purchasing shares at the beginning of Year 2 when the net asset value has decreased since the beginning of Year 1, pays an offering price of \$80 per share. Since the Incentive Fee which would accrue to his shares would be \$4 more than the Incentive Fee which would accrue for shares purchased by Shareholder A at Year 1, \$4 in amount of Shareholder B's shares would be redeemed at the end of the fiscal year so that Shareholder B would pay the current amount of Incentive Fee.

Shareholder C in Table II, purchasing shares on an Interim Purchase Date during Year 2 when the net asset value has increased since the beginning of Year 1, pays an Offering Price of \$110 per share (which includes an Equalization Factor of \$2) since the amount of funds he would otherwise have at risk would be \$2 less than the amount of funds at risk of Shareholder A. The Equalization Factor is returned to him and applied to the purchase of additional shares at the end of Year 2 since the Incentive Fee which would accrue to his shares would be \$2 less than the Incentive Fee which accrues to Shareholder A.